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FROM THE EDITOR

With this number, THE INDONESIAN QUARTERLY enters its third volume. Also with this issue, the QUARTERLY has undergone a change of editors, with Miss Clara Joewono replacing Dr. O. Soetomo Roesnadi.

In keeping with the custom of the QUARTERLY of adopting examples of traditional Indonesian weaponry as a cover motif, the curved Achehnese RENCONG featured in the last volume has been replaced by the JONO, the traditional side-weapon of the Bataks from the Tapanuli area of central Sumatra.

Energy — its availability and its varigate economic and political ramifications — lies at the heart of some of the major issues confronting the world today. In this issue, Lt. General Ali Moertopo examines some of the strategic and international implications of energy issues. Still on the international plane, the contribution from Dr. Donald G. McCloud attempts to apply some of the techniques of quantitative analysis to the study of Indonesian foreign policy. Dr. Soedjana Sapiie looks at some of the problems inherent in the intercultural transfer of technology, and discusses a possible solution to them in the Indonesian case.

This issue presents two articles by economists. Professor Y. Panglaykim writes on Indonesian financial institutions and their characteristics, while Mr. Anwar Nasution presents a review and assessment of Indonesia's macro-economic development during the period 1966 - 1973.

Finally, Mr. Harimurti Kridalaksana examines the function and value for the Indonesian standard dictionary.

C.J.

THE INTERNATIONAL AND STRATEGIC ASPECTS OF THE ENERGY PROBLEM

Ali MOERTOPO*

The goal of our present meeting and discussions has been defined as the formulation of a national energy policy. That such is a complex task requiring examination of the relevant issues from several perspectives is clearly indicated from the "Information Sheet" circulated by the Steering Committee of this seminar. This sheet while mentioning 4 main aspects appears to have overlooked one further important factor namely the international aspect or, more precisely, the international monetary aspect of the energy problem. This oversight is to be regretted, especially if it was not accidental.

International considerations must be taken into account in the formulation of any national policy, however, this becomes increasingly important when the issue is that of energy, due to the increasing sensitivity of countries to one another in areas formerly considered purely domestic, the increasing number and diversity of types of actors, particularly non-state actors, participating in world politics, the increasing difficulties faced by states in maintaining policy coherence, and the increasing possibilities for linkages between various types of issues, especially on the part of strong, developed countries. Such inter-issue linkages may entail fairly heavy costs to unaware developing countries, particularly when these interrelationships centre on questions of the economics of energy and security. The linking of these

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two issues is both powerful and dangerous as it represents a linking of industrial processes with their underlying political structure.

In view of all the above considerations I will limit my contribution in these discussions to the international aspect of the energy problem with particular reference to oil which is currently the major source of energy traded internationally and is likely to remain so for the next fifteen years or so.

All of the following observations, though sometimes expressed in the form of answers, must rather be considered as problems requiring more profound examination as part of the process of formulating a national energy policy. This is particularly true as I believe that such a policy ought to constitute a counter-strategy with which to meet the linkage strategy being applied by the outside world against us.

When dealing with oil, or as it is sometimes cynically termed "black gold", we are increasingly inundated by analyses which essentially contain complaints, if not reproach, towards oil producing countries. It is said that in 1974 these countries as a whole will receive an increase in income totalling, grosso modo, US$ 90 billion. Of this extra income the oil producing countries will at most be able to spend only US$ 50 billion on additional purchases in the oil importing industrialized countries. This means that the latter nations, as result of the increase in oil prices and the limited consumption capacity of the former, will not only face a deficit in the balance of payments but also the problem of finding ways and means to cover such a shortage because, by definition, the US$ 40 billion deficit cannot be paid for with real goods. The problem is further complicated by the fact that it is not only the rich industrialized countries that will suffer such a deficit but also those poor newly independent countries which have no oil deposits in their national soil. The deficit to be borne by the first group of countries has been estimated to amount to US$ 40 billion and that by the second group US$ 10 billion.

As these 40 billion dollars cannot be repaid in real goods the deficit must in the first place be met from the available foreign exchange reserves. However, as soon as these reserves dwindle down to their minimum level the deficit must be

covered with debts or, in other words, with "paper". A relevant question in this connection is then: what kind of paper. If the paper resorted to takes the form of short-term debts, it means "money", namely paper money from the deficient country. This method of covering a deficit is well-known to the United States for it was used to meet earlier balance of payments deficits toward Europe and Japan. However, Europe and Japan doubtlessly have not forgotten the bitter experience of witnessing their vast stocks of dollars accumulated as compensation for the surplus in their balances of payments being eroded in real value terms by the inflation present even before the oil price increases only to be further drastically reduced by the United States decision to devalue its currency.

Mindful of this bitter experience of Europe and Japan, the oil producing countries, especially those of the Middle East, are reluctant to receive "short-term debts" (money) as compensation for their balance of payments surplus. This being the case the alternative open to the industrialized oil-importing countries is payment with "long-term debts" or bonds as these could compensate somewhat the decrease in the real value of the debts by the interest that they yield. These bond notes, carrying a high interest and solidly covered, can be issued not only by the rich oil-importing countries but also by international institutions and even private business corporations. Supposing the oil producing countries are prepared to invest their liquid assets in the foreign capital market they would no doubt choose the one which offer the highest rewards. Given the present world situation and the state of technological development such a market is probably one that is closely related to potentially large profit industries namely that branch of industry — public or private — dealing with substitutes for oil. This means the oil-producing countries will eventually find themselves indirectly financing the development of those sectors whose products will one day compete with oil, the very source of their own wealth, strength and life now and in the years to come.

Aware of this the Middle-Eastern oil producing countries prefer to invest their idle liquid riches on a short-term basis only. They are doing this through a rigid selection in which preference

is given to countries with strong currencies. As a consequence of this policy tensions often arise among the national currencies of the rich industrialized countries. If they choose the U.S. dollar as the basis of their financial movement as seems to be apparent now, Europe and Japan are bound to become as dollar-hungry as they once were during the 50's. Yet the Middle Eastern liquid assets invested on a short term basis in the Eurodollar market or in sterling at call prove to be loaned out again by banks to oil-consuming industrialized countries for periods of five to seven years. This practice of course gives rise to a precarious situation because sooner or later these banks will no longer be able to bear the risk involved while the absorptive capacity of some countries of funds circulating in this manner through the banking system will grow smaller and smaller.

Another solution to the problem which was once proposed by the rich industrialized countries is to institutionalize the three-way trade between the rich countries, the oil-producing countries and the other poor countries. As the capacity to absorb both consumer and capital goods of all the poor countries together is obviously much greater than that of the oil-producing countries as a group, such an institutionalization was expected to facilitate a more speedy rehabilitation of the simultaneous exchange of goods against goods. On account of the extra income they have earned from trade with the rich industrialized countries, the oil-producing countries are requested to extend credits to the poor non-oil countries so that the latter can buy goods from the rich countries. In this manner the balance of payments of the rich countries need not suffer a deficit as a result of the oil price hike. This alternative in effect means that the oil imported by the rich countries is not to be paid for by these countries themselves, either with their paper money or their IOUs but rather by the poor oil and non-oil countries as a group through their mutual solidarity. In other words, in this way the rich countries will again shift the costs of their domestic policy actions on to the poor nations. I say "again", having thereby in mind the fact that such a burden has been carried by the poor countries in general ever since they gained their post-war independence.

as is clearly reflected in the development of their terms of trade which have never been favourable, or to use another term, have almost always been less than 100 percent.

In an effort to solve the oil problem the IMF Managing Director, Dr. Witteveen, found it fit to visit the Middle Eastern countries where he succeeded in obtaining an "agreement in principle" from various Arab states to make available funds amounting to 2.8 billion US dollars or the equivalent of 2.3 million SDRs (Special Drawing Rights). Of this amount Saudi Arabia would account for one billion SDRs, Kuwait 400 million SDRs, the United Arab Emirates 100 million SDRs, Libya 200 million SDRs and Iran 600 million SDRs. During a visit to Venezuela Dr. Witteveen also obtained a loan of 450 million SDRs and in Nigeria he secured agreement on Nigeria's lending 5 percent of its 1974 current account surplus which was estimated to reach 150 to 174 million SDRs. Canada also indicated preparedness to lend up to 250 million SDRs. With this total fund of about 3 billion US dollars the IMF hopes to create a so-called "oil facility" under which needy member countries can obtain loans to overcome difficulties in the financing of oil imports.

The above mentioned chain of events clearly indicates how oil has been linked to the system of SDR creation and how through this linkage the SDR has been given a wider function. Hence, if initially the SDR was intended as additional international liquidity for the sake of facilitating international trade, it has now been turned into the principal means of settlement of what has become known as the "oil crisis". If this crisis is considered to be such a threat to the smoothness of international trade because of the crisis it engenders in the balance of payments of the rich industrialized countries, it would perhaps be appropriate to ask why the IMF has not been giving the same attention to other kinds of crises which threaten the balance of payments of the poor developing countries ?

The crisis meant here is what was called in prospective analyses the "food crisis". An agency of the United Nations, the United Food Conference Organization, has estimated that world demand for cereals between 1970 and 1985 will increase

from 1,200 million to 1,700 million tons. This increase will mostly be caused by an increase in the need of the poor developing countries, namely from 600 to 900 million tons. If the rates of growth of both population and production remain constant, the developing countries as a group will suffer a shortage of 85 million tons of cereals annually or 10 percent of their requirements. This shortage may be greater than the volume they can hope to import with their own resources. Thus it is possible that by 1985 some 34 countries with a total population of 700 million will experience a food shortage. When this "cereal gap" really occurs the developing countries as a whole will see their import bill rise to as high as 18 billion US dollars a year. In view of this very high figure many of these countries will most probably find themselves unable to foot this bill. Furthermore, as is the case with crude oil in the developed countries, cereals have proven to be capable of working as a major inflationary factor in the developing countries. There are thus good reasons to ask why problems relating to this food crisis have been rather put aside, despite the fact that this, too, may seriously disturb the development of balances of payments. Or could it be that this neglect occurs because this food crisis happens to affect the balance of payments of the poor developing countries and not those of the rich industrialized countries as does the oil crisis ?

It cannot be denied that the interests of the developing countries differ from those of the developed nations. The latter possess large monetary reserves and should they suffer temporary difficulties they are generally in a better position to obtain loans or make "swap arrangements" among themselves. Conversely, the developing countries have small monetary reserves whereas their development programs require reserves generally larger than those which they control. It is therefore not surprising that the developing countries have, through the Committee of 20, demanded that the IMF links the creation of SDRs to development aid in such a way that of every new SDR created a certain amount is appropriated for allocation to the developing countries for the financing of their development efforts. This demand is referred to as the "link"

i.e. the link between SDRs and development financing. However, it appears that this demand has not been unanimously accepted by all representatives of the developed countries and the idea has been temporarily dropped with the polite reasoning that: more intensive thought is required, until February 1975.

Meanwhile the IMF has practically instituted another linkage which fundamentally also forms a link between SDR creation and development financing, namely the 3 billion US dollar oil facility for the benefit of the developed countries as described above. Under this oil facility SDRs are created on the basis of the proceeds of oil sales by the oil producing countries to serve the interests of the oil-importing countries most of whom are rich industrialized countries. But why does this system link SDR creation only with crude oil? Indeed, it is true that oil is the sole transportable source of energy which in itself constitutes a major commodity in international trade. But a deeper study of world trade will reveal that actually man has for a long time been conducting regular international trade in at least 25 commodities. These commodities consist of raw materials, industrial ingredients and food stuffs. Each of these commodities is technically definable in clear terms, storeable, transformable, and consumed on a large scale. Therefore as a whole they truly reflect the variety of world trade in terms of both value and volume. As these 25 commodities are mostly produced by the developing countries, any scheme of international liquidity that will link its creation to said commodities may not only serve the interests of developed industrialized countries but also those of the poor developing ones.

The above idea reminds us of the notions about "commodity money" that have been occasionally proffered by a few Western scholars. Oddly enough these notions have practically never aroused scholars of the developing countries in the way one might have expected though they were clearly presented in the interest of the developing countries. If at all mentioned in developing countries these notions are referred to in the same mocking or cynical manner as they are by those politicians in the developed countries who oppose these ideas, namely in such terms as "rubber-money, "chocolate-money", "tin-money" etc. I will not elaborate further on this concept of commodity-

money and would merely suggest that those who desire to know more about such a system should refer to the studies made by the analysts of the Centre for Strategic and International Studies (CSIS) in Jakarta. To arouse some thought, it is enough to say here that by commodity money is meant the creation of a new international monetary civility in which the world currency, be it called SDR or international unity, is no longer pegged to gold or the dollar nor to a "standard basket of currencies" as is now the case with SDR, product of the "Committee 20", but to a "basket of commodities" including oil.

Our economy cannot be separated from the national economies of the other countries in the world. For the sake of the very growth of our own economy we have to take part in the world's system of economic interdependence. What must always be kept in mind, however, is that this participation does not by itself ensure us of proportional benefits because if we are neglectful, interdependence may turn asymmetrical in areas where our economy and other national economies interact. Where national economies are asymmetrically interdependent, the less dependent may be in the best position to manipulate the relationship to serve its own interests not only in the area of the issue but in other issue areas as well.

Through intensive dissemination of systematic analysis the world's attention has been drawn to a problem which is being faced mainly by the developed industrialized nations. This took place in such a way that the world has now accepted as fact the existence of "the energy crisis" and, for that matter, a "serious threat" to the whole world economy. In my view this threat is basically a "subjective" one because, granted that it does exist, it is essentially a threat to the concept of partial prosperity. The developed industrialized nations have been endeavouring to raise the standards of living of their peoples by means of increasing production, leisure and exports without any significant rates of inflation. The tool of inflation control has been to artificially depress the prices of raw materials and basic commodities, including oil, produced by the developing countries in such a way that the terms of trade of the latter have never undergone any proportionate improve-

ment. When the price of oil was raised by the producing countries, the rich industrialized nations together opposed the motion under the pretext that it fostered world inflation by raising the costs of production. Yet according to the latest estimates of Western experts the oil price increase has added only 2 to 3 percent to the rate of inflation already existing before the oil price hike. Apart from the question of the rate of increase of inflation, if the rich developed countries had really wanted to reduce the pressure of world inflation by lowering production costs, they should have begun by lowering the level of their labour wages, increasing their working hours or, they should have reduced their sales tax on gasoline which in some developed countries is as high as 40 percent of the price at which the gasoline is sold to the final consumer. The alarm about the oil crisis and its threat to the world economy actually reflects a real fear, a fear over the claims of the poor countries against the dissipation of the earth's resources by the industrialized countries. It is a reflection of annoyance: annoyance about being no longer able to waste one of the important sources of energy; annoyance about being forced to change a way of life and thinking which had thusfar always been taken for granted. At the same time it is an "appeal" to the oil producing countries to remain willing to bear most of the cost of the success of their domestic welfare policy actions. Thus, if this oil crisis is considered a threat to the whole world economy its solution should be equally comprehensive rather than just partial. By partial I mean serving only the interests of a group of rich industrialized nations under the pretext of preventing world inflation. By comprehensive I mean in the interest of and for the welfare of the entire community of nations. In this connection the rich industrialized countries should think more in terms of "model of world society" rather than "models of national growth" where its success depends less on mother nature but requires more from man himself, from human understanding and wisdom.

It must indeed be admitted that there is an energy problem which in part has arisen because of developments in the price of oil. This is why we are fully concerned with the imperative of looking for an appropriate pattern of solution. This solution, whatever its form or nature, must be made part of a suitable

national energy policy. Though termed a national policy its formulation must take due account of international factors related to the problem. We do not stand alone in isolation but within a world of interdependent economies. Other people in other countries are also busy formulating a solution to this problem and it is clear that in said formulation the contribution expected from us is taken into account within the solution they are contemplating. For though we do not intend to pass on the costs of our own domestic welfare policies to the national economies of other countries and are even prepared to make a proper contribution to world prosperity, it does not follow that we are willing to bear the burden of the domestic welfare policy actions of other countries more than is absolutely necessary.

Seen from the point of formulating activities that are geared to the search for solutions to the energy problem, it could be said that the current world economy truly forms a giant laboratory where unprecedented economic-financial experiments are being conducted. In this world laboratory there is always a tendency to link one issue to others because of the existence of a system of interdependence in almost every sphere of life. Insofar as outcomes on an issue taken in isolation are different from expected outcomes if it is linked to another problem, linkages should be expected. The result of this linkage is not automatically equally beneficial to the partners concerned because the prevailing system of interdependence is not always symmetrical for all parties.

Therefore, in face of each linkage strategy drawn up by others against us, this Seminar should be able to formulate a counter-strategy the principal purpose of which is to prevent others from passing the costs of their domestic policy actions on our own fledging and developing economy.

QUANTITATIVE ANALYSIS IN INDONESIAN FOREIGN POLICY

Donald G. MCCLOUD

Within the American community of international relations scholars, there is a relatively new research method called "events data analysis" which has received little attention among area-studies scholars. The research project described in this article has been an attempt to apply in part this events data type of analysis to an area-oriented project — a case study of Indonesian foreign policy behavior in Southeast Asia. However, the project included, as any scientific research should, an additional or alternative data source in the form of a survey questionnaire administered to a random sample of a pre-defined Indonesian foreign policy elite. Thus, the object of this research project was to examine the patterns of foreign policy behavior as developed from the events data analysis and to contrast these behavioral patterns with attitudinal and perceptual patterns of the foreign policy elite as established from the survey.[1]

Before proceeding further, it is necessary to clearly establish what is meant by a foreign policy event. The foreign policy behavior of a state can be measured by any of several methods. Various types of communication flows have been analysed including mail flow, changes in diplomatic mission levels, trade statistics and other types of aggregate data. One of the more recent additions to these communications data sources has been the events data approach. In this approach, an event has been defined as :

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[1] The field work for this project was carried out in Jakarta between January and August of 1973.

> words and deeds — i.e. verbal and physical actions and reactions — that international actors (such as statesmen, national elites, intergovernmental organizations, and non-governmental international organizations) direct toward their domestic or external environments.[2]

Further, most studies of events data have distinguished, as McColland and Hoggard did, between transactions and interactions with events data being concerned only with the latter:

> Transactions are defined as items of action that have at some point in time become so numerous ..... to their situation that they are accounted for conventionally in an aggregated form, usually by some unit other than item frequency (i.e., dollar values of trade, numbers of troops in the field, etc.). Interactions are ..... single action items of a nonroutine, extraordinary, or newsworthy character that in some clear sense are directed across a national boundary and have, in most instances, a specific foreign target.[3]

Thus, if one can locate an adequate, public source of cataloging the array of contacts and communications between given states, those events can be coded systematically to establish patterns of foreign policy behavior as they evolve through time.

Most of the events data studies that have already been attempted have been concerned with the macro-level of political analysis and have used worldwide sources such as the *New York Times, Le Monde* or the *London Times.*[4] While these sources have been shown to vary in their coverage, no

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2 Philip M. Burgess and Raymond W. Lawton, *Indicators of International Behavior: An Assessment of Events Data Research* (Beverly Hills, California: Sage Publications, International Studies Series; 1972), p. 6. This monograph contains an excellent survey of the early development of events data research. See also Charles F. Hermann, "What is a Foreign Policy Event?" in *Comparative Foreign Policy, Theoretical Essays* ed. by Wilfram F. Hanrieder (New York: David McKay Co., Ind., 1971).

3 Charles A. McCol'and and Gary D. Hoggard, "Conflict Patterns in the Interaction Among Nations," ed. James N. Rosenau; *International Politics and Foreign Policy* (revised edition; New York: The Free Press, 1969), p. 713.

4 See Charles F. Doran, et al., "A Tdst of Cross-National Event Reliability: G'obal Versus Regional Data Sources." *International Studies Quarterly* 17 (June 1973) or Edward E. Azar, et al., "The Problem of Source Coverage in the Use of International Events Data," *International Studies Quarterly* 16 (September 1972) or Burgess and Lawton, *Indicators of International Behavior.*

study has been done focusing on the developing world or more particularly on a single actor within the developing group. Nevertheless, some of the difficulties encountered at the macro-level can offer insight into the problem of source selection in Indonesia.

The problem of data source quality has been examined by Philip Burgess and Raymond Lawton. They have noted that:

> Because the volume and composition of the universe of foreign policy actions is unknown, no authoritative criteria exist beyond the specific needs of the individual analyst by which to judge one source superior to another; hence, the estimation of error is ultimately dependent on the theoretical structures that the analyst brings to the data.[5]

The task, then, is not to select the "perfect" source but to select that source which will give the most satisfactory results in light of the purposes and limitations of the research project. However, the selection process should be as explicit as possible.

At the point in time when this research project was ready for the selection of a specific events source, three possibilities were available: newspapers, news agencies or the Foreign Ministry. A survey of each of these three sources was conducted, and *Antara,* the national news agency, was selected primarily on the basis of copy availability, suitability for coding, apparent volume in test periods, and breadth of information. These factors will be explained more fully below as specific indications are given for the elimination of the other possible sources.

The first source to be considered and dropped was the only other Indonesian news agency, *Kantorberita Nasional Indonesia* (KNI). This was done for two reasons. First, KNI was formed by a group of Indonesian newspapers in late 1967 and did not begin full operation until well into 1968. This time frame does not correspond with the beginning of the Suharto government (March 1966) which has been defined as the initial point for coding. Further, the KNI staff and funding is limited in comparison with those of *Antara.* Thus, KNI was eliminated primarily because of low volume indicated by a smaller number

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[5] Burgess and Lawton, p. 27.

of events coded as well as a total lack of information at the earliest dates of the study.

The next source considered and eliminated was the information office of the Foreign Ministry. During the period of field work for this project from January to August of 1973, the Indonesian Foreign Ministry was housed in small, temporary quarters while a new headquarters was being built. In terms of information availability, this meant that many documents were stored in boxes or poorly filed because of lack of space. Importantly, the Foreign Ministry holds only documents for contacts initiated through their Ministry, so this source would have missed important data from other Ministries as well as private sources.

The possibility of using one or several newspapers was given a very thorough examination. Two newspapers were examined, although others may have been available with back issues covering the relevant time period. However, many newspapers were not in operation throughout this entire period under study. Of the two — *Kompas* and *Sinar Harapan* — the former had more readily available back issues. However, when the volume of coverage from available issues was compared with the volume through similar test periods in *Antara,* the newspapers were found to be less than satisfactory. The table below shows the comparative results and totals through four test periods.

TABLE 1.

Frequency of publication of regional foreign policy events from three Indonesian sources

	1968 Jan. - April	1969 May - June	1970 July	1973 March - April	Total
Kompas	9	3	1	11	24
Sinar Harapan	7	11	1	na	39+
Antara	99	28	24	35	186

Pressing further into the problem of using newspapers as an adequate source for events analysis, several factors should

be noted. Most Indonesian newspapers print a standard number of pages for all editions; thus, a priority system tends to become established in the routine of filling a set number of pages. In this situation, it appears that factors such as the volume of advertising and coverage of any high-interest, domestic news randomly intervene to raise or lower the volume of coverage given to regional politics. Hence, for the topic of this particular events data study, the newspapers were considered to be inadequate as a source for events data work.

This concern with volume of events or total number of events is a manifestation of one strong assumption concerning events analysis: it is possible to systematically arrange the patterns of foreign policy behavior of a given state or states, if one can bring together a sufficient volume of information about foreign policy actions that are publicly reported and available.

An additional question might be raised as to the possibility of using more than one source for events data coding. Burgess and Lawton have noted that "a minimal prerequisite for events data projects is a thorough investigation and comparison of ... their candidate sources (which) should *precede* a commitment to a single source *or* an a priori commitment to multiple sources."[6] Of available sources only *Kompas* possessed sufficient back-additions to be used for a quality comparison with *Antara*. Such a comparison was made through two testing periods of January to April, 1968, and March and April, 1973. In the first period, nine regional events were published in *Kompas* and eight of these were also reported in *Antara* giving the latter source a coverage percentage of about 88%. However, in the second testing period, when *Kompas* reported eleven events, four were not reported by *Antara*. This reduced *Antara's* coverage to about 63%. But upon examination, the missing events were found to be duplication and elaboration on an event which was reported in *Antara* in a single article. There appears to be no clear explanation as to why this discrepancy occurred; however, it was felt that the differences between the sources on these two occasions did not merit the extreme burden in

[6] Burgess and Lawton, p. 65.

terms of time and money that utilizing a second data source would have engendered.

The demonstration of the availability of a strong and reliable data source has been one of the most important contributions of this research effort. No longer can it be argued that the commonly accepted worldwide data sources (i.e. *The New York Times,* etc.) are the only available sources. Sources such as *Antara,* which are much richer in terms of constant attention to Indonesian activity, offer a much greater percentage of the universe of foreign policy interaction. Most events data analysts have recognized the inherent bias in the worldwide data sources, but, lacking the necessary area expertise, they have been unable to develop any viable alternative sources. While even the most local sources have certain bias problems, the comparative richness of the information available in the local sources makes them much preferable.

Having defined the nature of a foreign policy event and located an adequate data source, the information was gathered from *Antara,* organized and coded according to a pre-defined scale of interaction. The scale was divided into three major categories: cooperation, participation and conflict. Each major category was then further subdivided into an action and verbal category. When ultimately the last detail of each event was considered, there were eighty individual codes for different types of foreign policy acts. A sample of the code is shown below; it represents those codes assigned for participation-action events. Each type of interaction was assigned a code number from 001 through 990 in a fashion similar to those shown on the table.

TABLE 2.

Sample of the events data coding system for participation-action

950	Menjamui Entertain or show hospitality
960	Kunjungan tak resmi Make an unofficial visit

965 Berkonsultasi di tempat yang netral
Consult — neutral site.

970 Pergi ke rapat atau Mengadakan rapat di luar negeri
Attend meeting outside of the country
(lower official only)

975 Kunjungan resmi orang-orang umum
Official visit by non-governmental persons
(cultural exchange etc.)

980 Kunjungan resmi oleh pejabat tinggi dari pemerintah
Official visit by higher government official

90 Mengadakan rapat
Host meeting

This body of events data drawn from *Antara* has formed the basis of the analysis of Indonesian foreign policy behavior. However, behavior is only one aspect of foreign policy, and the analysis of behavior patterns requires additional support: "If one wants to move toward better explanations of interaction patterns, one can hardly avoid moving into the domains of variables which foreign policy researchers examine (i.e. the actors' attributed and internal processes)".[7]

And in scientific research, it is dangerous, "to rely too heavily upon one indicator (and) whenever possible ..... a multi-indicator approach to the events or processes"[8] should be employed. Thus, although at the international systems level of analysis it has remained difficult or impossible, this researcher has accepted the argument "that a synthesis of internal-external analysis should be cultivated"[9] in an effort to provide explanations for the patterns of behavior that will be developed from the events data.

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[7] Azar, p. 12.

[8] Richard L. Merritt., *Systematic Approaches to Comparative Politics* (Chicago: Rand McNally; 1970), p. 13.

[9] Charles A. McClelland, "Some Effects on Theory from the International Events Analysis Movement," Azar, Brody and McClelland, *International Events Interaction Analysis*, p. 24. See also James N. Rossnau; ed. *Linkage Politics: Essays on the Convergence of National and International Systems* (New York: The Free Press, 1969) and "Pretheories and Theories in Foreign Policy".

The second data source used in this study, a survey of the attitudes and perceptions of the Indonesian foreign policy elite concerning power, stability and cooperation in Southeast Asia, will attempt to provide such a factor of explanation and support. The use of an elite survey rests on two assumptions that require some clarification. First, it is assumed that the group concerned with Indonesia's foreign policy is a small, rather homogeneous elite which can be isolated and described.[10] And second, the homogeneity of this elite group leads to the assumption that a survey of a randomly-selected subgroup of this elite can identify the basic belief patterns without necessarily surveying the very highest officials.

For the purposes of this study, the foreign policy elite has been defined as any Indonesian who maintains a professional or intellectual interest in Indonesian foreign policy over an extended period of time. The elite included government officials from the Foreign Ministry, the ASEAN National Secretariat, The National Security Council and Golkar. It also included many individuals such as members of several research institutes, foreign affairs editors from most of the major newspapers, university professors and advanced students of international relations, leaders of political parties, and a number of other private but knowledgable and influential individuals. The goal of the field effort was to gather as broad a cross section of this group as possible.

Having made the determination that a valid and useful survey could be drawn from a broad spectrum of individuals variously involved in foreign policy operations, a sample group of the greatest number possible from the greatest variety of institutions was interviewed. It is possible to describe the selected elite group based on information drawn from the personal information *(keterangan pribadi)* section of the survey. There was considerable reluctance on the part of many respondents, particularly government officials, to complete this section of the survey; thus, it was stressed throughout the field operation that this information was optional. The result was that a significant number of the respondents did not complete the

10 The assumption of homogeneity is not linked to Indonesia's general condition but has resulted from specific historic actions that have taken place in Indonesia since independence.

section, although for the substantive questions of the survey the response rate was quite high for each question. Nevertheless, the data does give some indication of the nature and composition of the elite as surveyed. Below are shown key personal factors and the percentage of respondents in each category as well as the absolute number given in parentheses.

It should be noted that no effort was made to varify these responses as the major goal of the survey was a total frequency distribution of attitudes for each situation or value and not frequency distributions within various subgroups of the elite. Also the high rate of response for the occupational variable was possible because most respondents were selected based on occupation and forms were often distributed through offices or other places of business; thus, as the survey forms were marked for delivery, it was possible to establish within general parameters the occupational variation but not the individual completing each survey.

TABLE 3.

Personal characteristics of the survey respondents group of the Indonesian foreign policy elite

Age :	under 25 years	3.4%	(3)
	26 through 40 years	34.8%	(31)
	over 40 years	28.1%	(25)
	not given	33.7%	(30)
Place of birth	Java	42.7%	(38)
	Sumatra	11.2%	(10)
	Other	11.2%	(10)
	not given	34.8%	(31)
Educational background	high school	2.2%	(2)
	some university	11.2%	(10)
	university degree	46.1%	(41)
	advanced university	9.0%	(8)
	not given	31.5%	(28)
Present occupation	government	41.6%	(37)
	journalist	24.7%	(22)
	academic	16.9%	(15)
	retired	3.4%	(3)

	other	9.0%	(8)
	not given	4.5%	(4)
Travel	Asia only	13.5%	(12)
	Europe only	4.5%	(4)
	America only	3.4%	(3)
	Asia and America	4.5%	(4)
	Asia and Europe	6.7%	(6)
	Europe and America	2.2%	(2)
	Europe, America and Asia . .	19.1%	(17)
Time outside of Indonesia	once — less than six months .	5.6%	(5)
	once — more than six months .	4.5%	(4)
	more than once — less than six months . . .	6.7%	(6)
	more than once — more than six months . .	37.1%	(33)
	not given	46.1%	(41)

The overall thrust of the analysis of this study, then, will be to examine the manner in which the patterns of Indonesian interstate behavior within the region of Southeast Asia are supported by the attitudes and perceptions of the foreign policy elite. This will be primarily a descriptive and inductive analysis; hence, a full array of hypotheses may be premature. But, it is possible to put forward several broad statements concerning the aspects of Indonesian interstate behavior and foreign policy on which the analysis will focus.

In looking at the patterns of behavior, the study will seek to identify the ways in which Indonesia selects and manipulates types of policy behavior, especially concerning bilateral and multilateral parameters of interaction as well as the conflict, cooperation and participation parameters. Detailed discussion of the interaction preferences in terms of specific types of interactions as well as specific policy initiators will also be required under this dimension of the analysis.

In examining the targets of behavior, the study will seek to discriminate in a detailed manner the Indonesian policy behavior patterns vis-a-vis the various regional targets. Particularly attention will be given to the policy trends toward regional organizations and toward states comprising the mainland and archipelago subregions of Southeast Asia.

Before the raw data from the events data and the survey could be analyzed, it was necessary to develop separate coding systems for each data set. No attempt was made to integrate these sources through either the coding or computing operations. The events data was broken down into 13 variables: Variable 1, case identification; Variable 2, data source; Variable 3, day of event; Variable 4, month of event; Variable 5, year of event; Variable 6, type of action (multilateral or bilateral); Variable 7, target; Variable 8, event initiator; Variable 9, form of publication (speech, news conference, etc.); Variable 10, attitude of event (cooperation or conflict); Variable 11, vehicle of event (verbal or action); Variable 12, event cumulator (single or multiple interaction); and Variable 13, event code. For the survey, each of the 112 questions were converted into 226 individual variables as were the various questions from the personal background information.

The raw data was transferred first to eighty column optical-scan sheets which could then be machine punched on computer cards. For the 13 variables of each event it was necessary to use 24 columns on one computer card; each event was placed on a separate card. The survey, then, required 226 columns — one for each variable — plus four columns on each card for case and card numbers. Three cards were required for each survey respondent.

The data was prepared and punched in Fortran IV computer language, which is among the most widely used computer languages; thus, the data will be readily transferable and usable by most social science research centers.

The programs used in the analysis were selected from a packaged series of computer programs. The package is known as the *Statistical Package for the Social Sciences* or simply *SPSS*[11], and it provided a readily available format for all of the necessary computer operations. The *SPSS* programs contain a great variety of computer operations; but, for the purposes of this study only a very few were utilized.

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[11] Norman Nie, Dale H. Bent and C. Hadlai Hull, *Statistical Package for the Social Sciences* (McGraw-Hill Book Company, 1970).

It was planned that the study would eover the entire period of time during which Suharto has been in power in Indonesia; thus, the starting date for gathering the events data was March of 1966, the date when former president Sukarno relinquished his last vestiges of formal power. The events drawn from the "Antara News Bulletin" beginning on this date and eontinuing through August of 1973 consisted of 3026 discrete events in 2163 separate news releases. The differenee between the number of releases and the number of events came about because there were frequently several events included in one release. In most eases this included references to specifically stated targets sueh as the announcement that the Foreign Minister was visiting Singapore and Thailand. Although both countries were named in the same news release. one event was coded for eaeh eountry. Additionally, there were some implied targets as when Indonesia and Malaysia announced a joint military operation of the Kalimantan border: although not specifically mentioned in the statement, such a release carried an implied warning to the insurgent groups operating in those border regions. In essence, eaeh message of each release, whether direetly stated or implied, became the basis for one event eoding. Also, the duplieation of any of the eoding variables, partieularly the targets, types of interaction and event initiators, required that a single event be coded for each duplicate.

The total of 3026 events produced a monthly average of 33.6 interactions. The greatest total for any single, whole year was 481 events in 1972, and the smallest whole year total was 318 events in 1971[12]. In order to group these events in some manageable unit for analysis, the events were placed in quarterly units of interaetion totals. For the years of the study this equaled 29 quarterly units which was a suffieient number of time-points to show directional trends in interaction volumes, yet this number was small enough to be easily managed in eomputer print-outs and graph design (for monthly analysis there would have been 78 time-points). The first full quarter of the study was the second quarter of 1966, and full,

[12] For the year 1966, only three quarters fall fully within the period of study, and for 1973, only two quarters are fully included. All intervening years have data for all four quarters.

three-month quarters continued through the second quarter of 1973. Within these quarters the total number of interactions was 2989 as some few events fell in the incomplete first quarter of 1966 and the incomplete third quarter of 1973.

The total event volume can be broken down by each of the variables already described. When the event volume is considered without reference to particular targets, the norms for Indonesia's regional foreign policy behavior can be established. Thus, we find that through the entire time period of the study 63% of Indonesian regional interaction has been verbal in nature and only 37% has been action[13]. Further, the variable breakdown of events in the cooperation-participation-conflict variable shows that 35% of Indonesia's regional interactions have been cooperative, while participation accounted for 57% of all interactions and conflict included a small 8% of the total. These figures suggest, as one might expect, that the bulk of Indonesia's activity in Southeast Asia is rather low level, mundane business of basic communication with regional neighbors.

However, there are additional variables which provide further details for a general description of Indonesia's pattern of regional behavior. For example, a selected group of interactions which have particular importance in the coding system can be extracted and isolated for analysis. The selection for this group was based on the assumption that some types of interaction require the expenditure of scarce resources and are, therefore, used more selectively by Indonesian officials than are the "less expensive" and less meaningful verbal interactions. As coded for this study, these selected interactions included one code number (300) for the signing of specific international agreements, four code numbers (800, 810, 820, 830) for economic, military and other types of aid giving, and the seven code numbers for going to or hosting meetings. In the period from 1966 through 1973, these selected interactions accounted for 27% of all of Indonesia's interactions in Southeast Asia. While it was not possible within this data set to compare this percentage with a similar figure for the

[13] For the purposes of this article, all percentage figures have been rounded off to the nearest whole percent.

rest of the world, the fact that more than one quarter of Indonesia's interactions are of this selected type is suggestive of the extensive commitment on Indonesia's part to regional foreign policy.

Another variable from which it was possible to select a group of primary importance was the event initiator. From this variable the following values have seen selected as the most significant subgroup of all the initiators: (10) President Suharto, (11) Presidential assistants[14] or ASPRI, (20) Adam Malik, the Foreign Minister, (30) General Panggabean, Minister of Defense, and (90) other Ministers including primarily the Ministers of Education, Trade and Information. This selection was made rather arbitrarily based on the pecularities of the Indonesian political system and a general indication from the events data of which categories were most voluminous. There are at least two deletions, General Nasution, the Chairman of the Parliament (60), and the ASEAN secretariat (22), which are open to question; however, it was felt that these two were significantly further away from the center of decision-making power than those officials included in the subgroup.

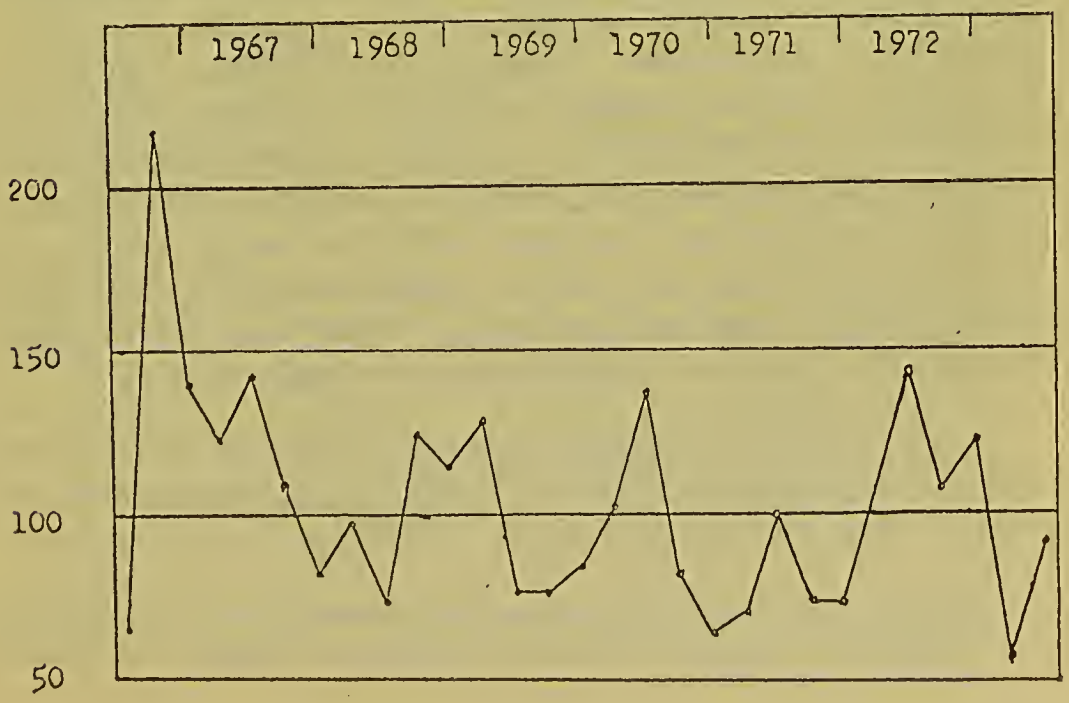
The subgroup as defined accounted for 44.7% of all event interactions initiated through the period of study. This equaled 1352 events. This high level of interaction among Indonesia's most important members of the foreign policy elite further suggests the strong position of regional policies within Indonesia's foreign policy.

Another very interesting aspect of the events data analysis was the time-series analysis. The data was totaled into twenty-nine quarterly units, and these units could be plotted on graphs to show the rises and declines in interaction volume as they took place through time. But, there are very few, clear temporal patterns which emerge from the overall volume of interactions. In total, fourteen quarters register increases over the previous quarter and twelve register declines. There is some tendency toward alternating periods of intense

14 As this research project and the data itself focus entirely on the period of time prior to the 1974 changes in the Indonesian government concerning Presidential Assistants, this coding has not been changed.

activity followed by periods of relative quiesence. In four peak periods, the increases in interaction volume over the previous quarter are clearly in evidence (1966/1 to 1967/2; 1968/3 to 1969/1; 1970/1 and 2; and 1972/1, 2, 3, 4), and the decline following each of these periods is equally obvious. In four of the full years of the study, the second quarter is the most active quarter. In all of the years of the study the quarter of lowest activity occurs quite randomly, giving no discernable pattern.

The most interesting aspect of this time series analysis is the cyclical nature of Indonesia's volume of regional foreign policy interaction. While it is not immediately apparent that specific causative factors can be found to explain these cycles, it is quite clear that they appear regularly in alternating rises and declines in interaction volume. This is most certainly suggestive of the evolution of diplomatic initiatives through planning, introduction and culmination stages. The four major diplomatic initiatives shown by significant increases to interaction volume correspond in time with the normalization of relations with Malaysia (late 1966 and early 1967), the introduction of ASEAN (1968 - 1969), the Cambodian peace conference (1970) and the beginning of the Vietnamese peace supervision assignment (1972). Between these major initiatives, interaction volumes sometimes fall to very low levels.



The graph shown on page 27 represents the quarterly flow of Indonesia's regional policy interactions through the entire period of the study. The figures on the left represent the number of events, and time is scaled across the top.

The very specific nature of each of these major regional initiatives points to the fact that the event data analysis is most meaningful when it can be related to specific targets. Thus it is to this aspect of the research that the main thrust of the analysis has been directed. However, in a paper of this length, only several of the main findings of the full project can be reported.

One of the very interesting patterns to be uncovered from this research focuses on the weak position of regional cooperation within the spectrum of Indonesia's regional policies. Overall multilateral interactions declined rather dramatically through the period of this study. There appears to be a peak during the year 1969; the decline in subsequent years is, however, dramatic and consistent. For example, the overall mean score for ASEAN is 13.1 interactions per quarter[15]. But from its beginning in 1967 through 1969 the mean score was 16.2 interactions per quarter as compared with a mean score of 11 interactions per quarter since that date. This represents a 32% decline over the higher pre-1969 mean. The decline in other types of multilateral interaction is equally dramatic: 30.4% in non-permanent organizational activity; 40% in interactions with all regional organization targets excluding ASEAN; and 61.4% decline in general regional targets. The extent of this decline in the volume of multilateral interactions is quite visible when compared with the overall volume of regional interactions: 16% of all regional interactions recorded from March of 1966 through August of 1973 were multilateral in character, while an overwhelming 69% were bilateral.

In an attempt to narrow the focus of multilateral interaction, the ensuing discussion will be restricted to two targets — ASEAN and the general concept of Southeast Asian regional

15 As ASEAN was not formed until the 3rd quarter of 1967 the mean was computed on the basis of the 24 quarters of the study during which ASEAN existed.

cooperation and problems. These are the largest categories of multilateral interaction as they include more than 80% of all multilateral interactions. The volume of these two types of interaction, then, can be accepted as representative of Indonesia's approach to multilateral interactions. When the variable for cooperation-participation-conflict is examined, marked declines can be seen as shown below on Table 4.

TABLE 4.

Comparative interaction factors concerning major multilateral targets — ASEAN and the general topic of regional cooperation and problems

	ASEAN			General		
	conf.	part.	coop.	conf.	part.	coop.
total interactions	13	166	131	.14	125	69
mean score per quarter	.54	7.1	5.5	.48	4.3	2.4
mean score since 1970	.29	5.2	5.1	.21	2.5	1.1

For both targets the conflict category is too small in volume to give meaningful results; however, in all other categories the volume is sufficient to give a clear indication of the direction of multilateral interactions. It is true that Indonesia's level of cooperative interaction with ASEAN remains nearly constant, but, in the crucial interaction area of participation, the volume of interaction with ASEAN has declined by 26%. In both cooperation and participation interactions addressed toward the general target of regional cooperation, the decline is very marked at 42% in participation and 54% in cooperation.

To examine this decline even more closely it will be useful to examine the shifts in the proportion of verbal and action interactions and the respective increases or declines in regard

to ASEAN and the general concept of regional cooperation and problems. Because of the nature of the latter category as a general target for discussion, it will be of little use in the comparison of verbal and action event patterns: more than 92% of the interactions directed toward this target are of the verbal type. But it is within this verbal category that the most dramatic decline in interaction volume occurs. The overall mean score for verbal interactions directed toward this general concept of regional cooperation is 6.7 interactions per quarter; however, this declines to 3.6 interactions per quarter in the period beginning in 1970. Simply stated, this suggests that Indonesian officials have been doing a great deal less talking about regional cooperation in recent years.

The decline in the verbiage on regional cooperation corresponds with a significant, though less dramatic, decline in the volume of verbal interactions with ASEAN. The overall mean score for verbal interactions with ASEAN is 10.75 per quarter, but in the period since 1970 that mean has dropped by 18% to 8.8 interactions per quarter.

The decline in interaction volume is also present in action interactions with ASEAN, although the decline since 1970 has been only 4%. Assuming that a healthy relationship with any organization would remain constant or increase over time, even this minimal decline is suggestive that Indonesia has not fully accepted and supported the concepts of regional, multilateral interactions as a primary vehicle for the international relations of Southeast Asia.

When multilateral or regional interactions are considered in conjunction with other selected variables the problem becomes more clear. There were 59 interactions directed toward ASEAN which were among the selected interaction codings. This represents 18.7% of the interactions with ASEAN. However, 52 of the interactions were among various categories of attending or hosting meetings (most of the 900's series), while only 7 of these interactions represented significant commitments to any action (coded 300 or the 800's series). The implication is clear, then, that while Indonesia has been quick to attend meetings as minimally necessary for participation in ASEAN, this has not been followed with any

propensity toward meaningful agreements and policies. This lack of meaningful interactions toward even the most significant multilateral target gives further credence to the proposition that Indonesia sees only limited advantage in multilateral interaction.

Sligthly more than half of the interactions directed toward ASEAN were initiated by the selected subgroup of the Indonesian foreign policy elite. One member of the subgroup accounted for the bulk of these interactions: Foreign Minister Adam Malik initiated 37% of the interactions with ASEAN, while President Suharto, the next most active subgroup initiator, was responsible for only 9.5% of the total. Outside of the subgroup, members of the ASEAN National Secretariat accounted for 18% of the interactions and other government officials, excluding foreign service and military, accounted for 8.6% of the ASEAN interactions.

There are some indications that the saliency of the ASEAN relationship has declined. During the first 10 quarters of ASEAN's existence, the Foreign Minister initiated an average of 6.6 interactions per quarter with ASEAN; however, during the last 10 quarters of the study, the Foreign Minister's interaction level averaged only 3.7 interactions per quarter, a decline of almost 50%. The importance of this decline may be lessened by the fact that there has been no decline in the frequency of the selected types of interactions initiated by the Foreign Minster. Thus most of the decline has been in verbal and other less salient types of interaction. In any case, it is quite clear that Foreign Minister Adam Malik has been the leading supporter for the ASEAN concept among Indonesia's foreign policy elite. Among the subgroup of the elite he has been the only consistent spokesman for ASEAN, as President Suharto as well as the other Ministers have maintained only very small volumes of interaction and have been sporadic in the quarterly frequency of interactions with ASEAN.

The behavioral patterns of Indonesia's interactions with the various multilateral targets of Southeast Asia do not, then, suggest a strong commitment on Indonesia's part to the concept of regional cooperation. Rather, these patterns of

interaction suggest that, while the New Order may have placed some early credence in the utility of multilateral interaction, results in terms of salient patterns of interaction and strong support from importnat members of the forcign policy clite have not been sustained.

The data from the survcy, however, provides a very different indicator of the importance of multilateral relations within the perceptions of the Indonesian foreign policy elite. For example, many of the survey respondents (89% and 92%) saw economic gains for Indonesia as justification for pursuing regional cooperation[16]. When queried on the utility of multilateral interaction in security matters, the rcsponscs were not so strongly in favor of a multilateral approach, but a majority saw some benefit in it: 65.2% of the respondents agreed with the statement "A regional organization can insure Indonesia's sccurity". On othcr political or security qucstions the response was also high, as it ranged near 75% agreement that regional organizations can add in some measure to Indonesia's security within the region[17].

In another series of qucstions members of the foreign policy elite was presented with a list of development projects and asked whcther these could best be completed through multilateral organizations, through bilateral agreements or through Indonesia's individual efforts; with no outside help. Although the presence of an option for domestic action may have skewed the responses somewhat, a clear prcfcrence within the intcrnational sector was shown toward multilateral action. Therc were eleven projects listed of which six were felt to be best carried out through multilateral action, four were seen by

16 The statements were: "Indonesia should seek to gain new markets for her growing industries through a regional eommon market;" and, "Regional organizations are a useful faetor in Indonesia's eeonomie development plans. Possible responses were strongly agree, agree, disagree; or strongly disagree. In eaeh case the eombined responses of strongly agreo and agree aeeounted for 89% and 92% respeetively on tho respondents in the survey (N-89).

17 74% of tho respondents agreed that "Strong regional organizations can help reduee the intervention of the superpowers in Southeast Asia", and 73% of the respondents felt that "Regional organizations will make Indonesia a sronger foree in world polities", while a similar 74% agreed that "A regional organization ean offer an indireet route for Indonesia to aid weaker eountries against communism.

a majority of the respondents as being best placed within the domestic sphere, and one project received equal support for multilateral and domestic action. Thus, the bilateral approach was never selected as the best method of achieving the goals, and, even more noteworthy, it was the last choice in all but two situations.

In yet another question series concerning Indonesia's support for regional organizations, the period of New Order government was given a positive evaluation for its support of regional organizations with more than 65% of the respondents selecting "strong support" and another 28% selecting "some support" as indicators of New Order policy. Virtually no one saw the New Order as antagonistic toward multilateral activity; however, 5.6% of the respondents rated Sukarno's Guided Democracy as negative to regional cooperation while only an equal 5.6% felt that Guided Democracy policies had "strongly supported" regional organizations.

There was further important support in the agreed fact that 41% of the respondents would request military assistance from ASEAN if ever Indonesia found herself in a military conflict that she could not handle alone. There is considerable support for expanding ASEAN to include most of the other states of Southeast Asia — more than 60% of the respondents see it as either crucial or important that each of the mainland states become members of ASEAN. There are, however, clear limits to this expansion as, for example, no respondents thought it crucial for either Sri Lanka or China (PRC) to join ASEAN while 5.6% and 51.7% respectively saw a negative impact to membership for these countries. Yet the regional intimacy expressed by the elite perceptions is not reflected in policy behavior patterns with regard to multilateral interactions. It is entirely possible that this situation represents a lag between changes in attitude and changes in behavior. But the high volume of cooperative, verbal interactions as early as 1969 suggests that already at that time there was considerable attitudinal support for regional cooperation. However, the patterns of interaction since then have not shown a corresponding or subsequent increase in multilateral action interactions.

Perhaps the greatest degree of causative explanation for this weak position of multilateral interactions can be found in the particular strength of one, all important, bilateral relationship. The strong patterns of interaction between Indonesia and Malaysia suggest that any broader regional format may simply be of secondary importance for Indonesia.

This dominant position of Malaysia is immediately apparent in the relative figures of interaction volume among the several major targets. This volume of interaction between Indonesia and Malaysia amounts to 1021 events. This can be compared with the volume of ASEAN, for example, of 315 events through the same time period. There is simply no other target which receives any comparable volume of Indonesian foreign policy events.

Interactions with Malaysia do seem to vary widely, however, over time. For example, the average number of cooperative interactions is 13.3 per quarter. But in the first two years of the study, the quarterly average of cooperative interactions with Malaysia was over 20 interactions per quarter. But during the following two years, this average or mean score fell to 7 interactions per quarter. Not until 1970 did the mean ever approximate overall mean by reaching a score of 12 interactions per quarter. This same pattern is also apparent in the participation interactions. Both of these patterns are suggestive of the early peak volume in conjunction with general policy readjustments in the first years of the Suharto government. This peak has been followed by a sharp decline and, eventually, an expanding relationship as the New Order regime has reached some measure of normalcy. The dramatic decline in 1973 was based on only two quarters, so must not be accepted as a definite indication of changes in these patterns. The fact that there is no increase in conflict interaction may further suggest that the quality of the relationship between Indonesia and Malaysia is not in a difficult period for 1973 despite the lower volume.

There are other factors in the Malaysia relationship which provide further clarification for this situation. In the selected interaction category the overall volume is quite high, with the coded event (300) "substantial agreements" was recorded for

39 events. Military assistance (810) and the general assistance code (830) were also frequently recorded. However, the most important point is simply that Indonesia has been willing to take more meaningful interactions with Malaysia than with any other target in the region (and in absolute terms 113 such interactions compard with 52 of the same from all other state targets in the region).

The foreign policy elite has also shown considerable support for this strong relationship with Malaysia: 86% of the survey group saw Malaysia as a very important factor in Indonesia's security. Moreover, 29% of this elite group indicated that should the situation ever arise, Indonesia would request military assistance from Malaysia (the next highest target on this issue was the Philippines with 15%). Finally, Malaysia was evaluated as providing the most effective leadership of ASEAN (excluding Indonesia) by 54% of the surveyed elite group.

Although most scholars of Indonesian or Southeast Asian affairs have acknowledged this special position of Malaysia in Indonesia's regional perspective, it remains difficult to overstate the paramount position of Malaysia indicated in this analysis of events interaction data. Ultimately, the intensity of this relationship is most strikingly apparent in the gross volumes of interaction: 43.6% of all Indonesian regional interactions were directed toward Malaysia, while the remaining volume of interactions was spread widely among 31 other targets; the total number of interactions with Malaysia was 1021 events compared with 315 events for ASEAN, the target of next greatest volume. Thus, there can be little doubt that Indonesia's primary focus in Southeast Asia is very narrow as the highest salience of interaction and the greatest volume of interaction is directed toward only Malaysia. Moreover, there do not appear to be any targets with the potential to compete with Malaysia for this select position.

This dominant position of Malaysia has had a far reaching impact on all other patterns of Indonesia's regional interactions. One case in point might be ASEAN where it appears that this organization, which envelopes the Malaysia relationship but also extends much further, has not received adequate support

from Indonesia in terms of the eommitment of Indonesia's foreign poliey resourees. Despite the fact that both Indonesia and Malaysia were founding members of ASEAN and Malaysia continues to be one of its most avid supporters, the bilateral interaction pattern between these two countries has steadily increased in volume and signifieance since the founding of ASEAN. In the case of Indonesia and ASEAN, it has been noted that early large volumes of verbal support have never been followed by substantial actions or the commitment of Indonesia's resourees through ASEAN channels. And, although the foreign policy elite expressed strong support in the survey for the eoncept of regional eooperation, the overall volume of interaetion with ASEAN has declined in recent years. Thus, it does not appear that Indonesia under the New Order regime has developed a strong commitment to multilateral regional interaction generally or to ASEAN specifieally. While the causes for this lack of commitment cannot be drawn from the data used in this study, the patterns of interaction established through the events data analysis clearly show that Indonesia's primary interests are narrower than the ASEAN context; thus, ASEAN may be superfluous to Indonesia as long as the primary interest remains Malaysia and this relationship continues to intensify through bilateral interaetions.

The intensity of this relationship is such that it may be misleading to diseuss it in eonjunction with any other regional targets. Thus, eonsiderations of Malaysia in the context of ASEAN or other regional eonfiguration (such as the archipelago states) appear to be unwarranted to the extent that such comparisons may impute similarities between the Malaysia relationship and that of Singapore, the Philippines or Thailand. The patterns of interaetion defined in this study clearly suggest that the Malaysia relationship is in a class alone.

TRANSFER OF TECHNOLOGY A PROPOSED SOLUTION FOR INDONESIA*)

Soedjana SAPIIE

I. INTRODUCTION

The topic to be covered in this conference is a broad one, and I feel it proper to begin with adjusting ourselves to the meanings of the various key terminologies, without indulging in the luxury of semantics. Such an attempt is felt all the more necessary, since most of the terms like technology, transfer of technology etc. are probably household words to us; however, within the context of this conference, they might acquire fundamental importance.

In the context of this presentation, the meaning of various key terminologies will be enlightened from the pragmatic concepts, with a probably implication of being non-exhaustive academically. Let us define science as a body of knowledge and technology as the state of art. The latter implies that technology is associated with a process of production. It is the way in which the various resources, land, capital, labor and skills are combined towards the realization of the aim of production.

Looking at it from the macro point of view of a society, it becomes obvious that technology so defined has broad

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implications, since it reflects economic policies, managerial decisions, research policies etc. encompassing the whole spectrum of human endeavour, prevailing within the society at a given time.

Clearly the problem we are facing in this conference would then be immense in scope, and we should narrow it down towards more manageable proportions. Let us refer to technology as the whole range of technical inputs other than raw material and labor which go into each economic activity, in particular the processes, building plant, machinery equipment and tools for each segment of production[1].

In this way technology is brought closer into the realm of the production function and using the various degrees of mixes of the production factors, classifications to what kind of technology i.e. advanced, intermediate, or low technology will be possible.

What then is meant by "Transfer of Technology" ? The word transfer implies the existence of a source and recipient, while something is passed between them through an appropriate communication channel. Obviously what is passed between the source and recipient is "technology". But what do we actually mean by this ? A ready answer in the context of the definition of technology would probably be : transfer of know-how and its associated tools.

The source is associated with the ownership of the know-how, while the recipient is the one who sees the need of that particular know-how, towards its utilization in order to fulfil his desired ends. Transfer is accomplished through a certain arrangement involving ownership and is generally associated with monetary terms agreed on by both. Looking at it this way, then technology i.e. know-how can be considered as a commodity available in the market, and can be obtained through the usual means. If that is all there is to it, then one of the main mechanisms can be thought of as patent arrangements between the ownership countries and the recipient countries. Indeed such arrangements have been done by several

1 Jackson Sarah, *Economically Appropriate Technologies for Developing Countries:* a survey Occasional Paper Series; Overseas Development Council, 1717 Massachusetts Ave, Washington DC, U.S.A.

countries and proved to be an effective way in the process of technology transfer[2].

However, I feel that the aim of this conference goes farther. It seeks answer on the more fundamental problems on the application of technology towards the support of development, such as :

How human factors affect the diffusion of technology and make transfer of technology more meaningful in terms of modernizing society towards higher productivity etc. ?

Those are difficult questions which in general can not be answered by the technologist alone, since it cuts across a broad segment of society and is associated with the fundamental cultural pattern prevailing at that particular time period.

The transfer of technology in general is a complex process, and this view is also expressed by a group of eminent scholars which came together at MIT in 1969, for a conference on this particular subject[3]. On the matter of transfer of technology the view was expressed :

> "..... The lesson of the conference is twofold. First, although technological transfer is now accomplished by agents rather than agencies, institutional means have to be devised to facilitate, expedite, and multiply their movement through the institutional systems between which transfer has to take place. Second, the institutional means so devised will inevitably, in the long run, inhibit the selfsame process.
>
> And the essential corollary is, that in a society committed to technological progress, economic development and social change at the present pace, the primary task facing by the social sciences, are how to cope with the problem of institutional obsolescence, and with the need for institutional inventiveness"[4].

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2 Tarapore Savak S., "Transmission of Technology to Developing Countries", *Finance and Development*, Vol. 9, No. 2, June 1972.

3 Gruber William H., and Marquis Donald G., (editors), *Factors in the Transfer of Technology*, the MIT Press, MIT Cambridge, Mass., U.S.A.
The following articles are taken from that book.

4 Burns Tom, "Models, Images, and Myths".

As a special footnote, I would like to cite the following phrases, which express so well the meanings of certain terminologies, which I am sure will often be referred to in this conference :

> "Technology may be defined as the means or capacity to perform a particular activity. The transfer of technology must then mean the utilization of an existing technique in an instance where it has not previously been used. This transfer may be merely the acceptance by a user of a practice common elsewhere, or it may be a different application of a given technique designed originally for another use. The acceptance by a user of a common practice is called "adoption", and the spread of such adoptions the "diffusion of technology".
>
> The application of technology in a new way is properly labeled an "innovation". A transfer of technology occurs in both adoption and innovation in the sense that a decision is made to use a form of technology where it has not previously been utilized.
>
> Note that a form of use occurs in both cases. If technical elements are brought together in a new way and a new technology results, this would be called an "invention" until it is used to satisfy a demand, at which point an "innovation" occurs. Research on the transfer of technology thus focuses on "innovation" and "diffusion" because the word "technology" connotes a method of achieving a practical purpose or "use".
>
> "Use" requires at least one user in the broad economic meaning of the word. A product must be sold, a piece of equipment must be used, or a unit of military weaponry must be put into production in order to qualify as examples of transferred technology. The economic meaning of "use", therefore, connotes utilization to satisfy a demand or need for a product or service"[5].

II. TRANSFER OF TECHNOLOGY

The thought pattern presented in the preceding paragraph, enabled us to start with an attempt to analyze the process of technology transfer; this implies that innovation and diffusion

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5 Gruber William H., and Marquis Donald G., "Research on the Human Factor in Transfer of Technology".

of technology is our main concern. Toulmin[6] helped us in this effort, by visualizing the process of technology transfer, in stages. Toulmin recognized the fact that the process of technology transfer is evolutionary and borrowing the established theory of evolution in biology, he introduced the three stages within the process of transfer of technology.

The first stage (mutation), commonly known as the R and D stage, is where new techniques, processes, are devised and prepared for testing and costing. This is followed by a second stage (selection), where within one specific area of application the techniques or processes in question are shown to be feasible, technically as well as economically. The final stage (dominance) is when those techniques are spread into the general body of industrial and engineering know-how.

Clearly an effective R and D program helps one to obtain a great number of variants of techniques and in so doing, a pool of variants is hereby created. However, this is just one step in the total chain towards utilization of the created new technology. Success will be measured in the first instance by the application of one of the variants in a production process within the economic activity. The first question might then be asked, who is going to put its resources in R and D, and who is to participate in the selection stage? Furthermore how are the two stages linked together ? Obviously the answer depends on the set up of the institutions, whether we are concerned with public or private sectors of the economy. A more basic question could be asked on the various motives, why resources are consciously utilized in R and D, and why certain techniques so found are preferable; and in terms of acceptance why a certain practice is more accepted than others. In short, why certain techniques are more successfully transferred than others. Furthermore taking intercountry comparisons. why the differences in the speed of the transfer process exist. Answer to these questions could only be found by taking into account the human factors, and their institutional set up, within the frame of an economic, social, cultural and political system.

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[6] Toulmin Stephen; "Innovation and the Problem of Utilization".

It is an established fact in the world today that the role of business is crucial in the process of transfer of technology. Mc. Clelland[7] even goes farther, that it is only through business and the entrepreneurs that effective transfer of technology can be obtained. Economic factors and entrepreunial characteristics will then exert a decisive influence on the process of the transfer of technology. And this is more so, since transfer of technology implies utilization, and is in general oriented towards the demand, either existing or predicted in the short future. It is in this demand recognition which will become the prime mover towards the utilization of new technologies. This orientation towards the market will in general lead towards the reexamination of the present practices, with probable changes in mind. This demand recognition which is not being satisfied by the present technology is critical in technology transfer.

With the reexamination of the present technology, a need might arise towards the application of new techniques. But how are these to be obtained ? Clearly from the information of available technologies, where choices could be made. This is what Gruber (Gruber William H., and Marquis Donald G., "Research on the Human Factor in Transfer of Technology" ed.) called the Technical Feasibility Recognition; only when demand recognition is fused together with technical feasibility recognition is innovation possible.

Recognition of those factors in question will provide the impetus for action. However, no results will be obtained, unless action is taken, and here is where the key is. There is always a willingness and an ability aspect in every action taking, and for the decision maker, many of the factors will have to be considered, those which are favourable and unfavourable towards the course, also the constraints under which the course of action is taken.

On this willingness and ability towards the application of new techniques in business, Gruber[8] cited three important

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7 Mc. Clelland David C.; "The Role of Achievement Orientation in the Transfer of Technology".

8 Gruber William H., "The Development and Utilization of Technology in Industry".

determinants. They are (1) Competitive pressure, (2) Size of market and profitability, and (3) Size of firms. Furthermore a business enterprise develops and practices new technology not because it wishes but because it must.

Like anything else, advancement of technology *i.e.* successful transfer of technology can only thrive under favourable conditions. Determinants for the creation of these conditions are among others (1) The availability of (or the accessability to) a pool of technological variants, (2) the existence of a class of "entrepreneur-innovators", and (3) a conducive economic climate.

The entrepreneur-innovator, a term used by Mc. Clelland (Mc. Clelland David C., "The role of Achievement Orientation in the Transfer of Technology" ed.) is the prime mover of transfer of technology, because he is the personification of the human being possessing the necessary characteristics conducive towards its fulfilment.

It is the combination of the availability of all three factors, which makes advancement of technology possible. Gruber (Gruber William H., "The Development and Utilization of Technology in Industry" ed.) found that the probability of firms developing and applying a new technology is an increasing function of the profitability, and the proportion of other firms doing so, and a decreasing function of the size of investment.

Clearly given the existence of a pool of technological variants, the intensity of the selective pressures on these variant will determine the rate of diffusion, as the result of human striving towards the betterment of life. The entrepreneur-innovator makes this happen, guided by sound government policies to preserve a healthy and conducive environment.

On the effectiveness of communication channels in the process of transfer of technology, research findings indicate that literature is not greatly used, while its performance is mediocre at best[9]. A more effective communication channel

[9] Allen Thomas J., "The Differential Performance of Information Channels in the Transfer of Technology".

is provided by personal contacts, *i.e.* people to people. Schon[10] goes even farther in this belief that it is the movement of people, organizations and institutions and not information, which create a condition favourable for the transfer of technology. Burns (Burns Tom, "Models, Images, and Myths" ed.) even surmised that the most important achievement of the "MIT conference on the factors of transfer of technology in 1969", is the acceptance by implication that the movement of people among establishments, rather than the routing of information through the communication channels, is that which promotes the process of technology transfer.

III. TECHNOLOGY AND DEVELOPING COUNTRIES

There exists a prevailing belief in many developing countries, and soundly so, that only through the application of technology could the future be secured. The development plans often contain one or other form of industrialization, each devising a strategy of their own, commensurate with their resources and their present stage of development. The road to be travelled is still very far indeed, however, a beginning should be made.

In developing countries the role of the Government is generally more complex than in developed countries, and is mostly more directly involved in the economic activities. Governments are very often involved with large investments utilizing the most modern aspects of technology. Very often those projects are of the turn-key type, employing foreign expertise and imported know-how, with little effect on the transfer of technical know-how to the rest of the country, outside the selected few involved with the project. Spin-offs are generally not meaningful and slow.

Developing countries with little skill, know-how, and limited capital, definitely need imported technology, and ideally it should take all the necessary steps to create a technology of its own within a relatively short period.

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10 Schon Donald, "The Development and Utilization of Technology" (Comments).

This takes a well coordinated effort encompassing a broad field of Government bureaucracy, and most developing countries are administratively not prepared to successfully carry out such an undertaking. Indeed administration is in many ways the constraint in the implementation of a well intentioned government policy.

The planners and the decision makers in developing countries are conscious of the importance of technology, and the formulation of a policy on technology mostly combined as a science and technology policy, becomes part of the nation's effort. This policy is in one or other way tied into with the employment problem, in which in one aspect it formulates basic steps to promote employment and in the other to stimulate economic growth through industrialization. All this is done with resource limitations, and need outside investments, in a rapidly changing technological environment. Obviously formulation of such a policy is not an easy task, and implementing it under the existing administrative constraints is an exercise in patience.

A policy on technology should aim at maximizing the benefits of the transfer of technology, towards support of the development policies.

Basically it brings together two aspects; the inducement of investments utilizing (new) technologies, and maximizing employment. Experience shows that those two are not always in harmony. The idea is quite a simple one. The government through taxation and other means controls the factor prices, so that appropriate technologies are encouraged, and other kind of technologies discouraged. However, it can only go so far, as not to jeopardize the expected investment. It is this harmony of the investors point of view (micro) and the broader government point of view (macro), that is sought in well designed policy on technology.

Depending on one's view, there exists mixed feelings on foreign investment in developing countries. The view that foreign investments are endangering the country contains some

truth, in particular in the age of big conglomerates in the form of big multinational corporations[11]. On the other hand foreign investment can be useful as agents of transfer of technologies under the right kind of governmental policies. Foreign investment brings with it new technologies, hardware as well as software, new attitudes and new managerial skills. As any investment, it can create secondary industries serving the foreign investors. These secondary industries are mostly small in nature and financed out of domestic capital. Operating in this fashion the secondary industries obtain a chance to prove their ability to meet exacting standard specifications, which they otherwise would not get. In this way the rate of transfer of technology is increased.

The key to this succes is a sound government policy and its implementation, and a progressive attitude and understanding of the foreign investors. However, things are not always what they ought to be, and if it is the case then the mutually accommodating principles are not in harmony and, divorce is probably the only way out, and might still be the best for all. Needless to say each has to pay a certain price for the unhappy experience.

The existence of foreign investors complicates the matter of formulating a sound policy on technology much more. Foreign investors are prone to utilize the type of technology they are accustomed to, and are mostly of the most up to date type. This is often not in line with the thinking of employment oriented technologies, and often a source of polemics in the country. One often hears the notion of the appropriateness of the technologies which the foreign investors bring into the developing countries (again the conflict between the micro and the macro frame of reference). The proponents of the employment oriented technologies indeed have reasons to gripe, but on the other hand the trend in regions of Asia, is towards the application of Modern Technology, as Mehta[12] showed it.

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11 Dorodjatun Kuntjoro Jakti, "Multinational Corporations and their Possible Influences on the Industrialization Process in Indonesia", *Prisma*, (in Indonesian), No. 5, August 1972.

12 Mehta M.M., *"Choice of Labor-Intensive "Product-Mix" and "Technology-Mix" in Asian Manufacturing"*, U.N. Asian Institute for Economic Development and Planning, Bangkok, May 1972.

Mehta found out that, (1) the historical trend shows a marked and continuous decline in the employment-output ratios in the total manufacturing, as well as in all the nine major groups of manufacturers and (2) that a comparatively study of the time pattern of change in employment-output coefficient in the Asian region and the world, is the relatively faster pace of change in the former compared to that in the latter. These changing patterns will have a decisive influence on the employment, and are obviously slowing down the employment-generation effects of modern industrialization.

Developing countries need to develop their own technological capabilities, and should consciously plan towards the utilization of science and technology in order to support their development. The formulation and implementation of such efforts are not an easy one, because a developing country has to cope with both internal as well as external pressures. In cases where many factors are not completely within the government controls even formulation of a practical technology policy becomes immensely difficult. One thing, however, is clear, a developing country needs technology and will in general go through a stage of the dependence on imported technology. Transfer of technology is the key issue, and to achieve this on a meaningful scale within the shortest possible time is the challenge faced by the developing countries.

In the previous chapter (on transfer of technology), the salient features of the technology transfer process was presented, as pertaining mainly to developed countries, in particular to the U.S.A. How far do the findings of the studies on the determinants of the technology transfer, obtained so far, have any relevance to developing countries? In particular to developing countries within the region where the participants of this conference come from ? As an illustration take the case where the most effective mechanism of transfer of technology was found to be the movement of people among establishments, might well be true in the case of the U.S.A. Labor mobility has been traditionally known to be high there; however, how does it relate to Japan ? It is generally known that labor

mobility is not high in Japan, and yet all indications so far point towards the successfulness of the process of technology transfer within that country.

What are the means and mechanism which make Japan successful in mastering the transfer of technology ? A question which I personally hope to find answered in this conference.

IV. INDONESIA AS A CASE IN TECHNOLOGY

Indonesia's plunge into a political adventure in the past is well known, and although not completely without any valuable gains, the visible result is that only after a quarter of a century of independence has the first five year development plan been put into effect, under the most adverse conditions. Due to this basic change in outlook, clearly visible signs are noted pointing towards improvement and growth in many facets of life. An air of optimism prevails, growth rates are within the targets, however, the road to be travelled is still far away in many ways. It is within this air of optimism, that investments can prevail, and as a policy Indonesia opens its door widely for domestic as well as foreign investors. Judging from the approved investments so far the results are encouraging, about 1.6 billion U.S. dollars foreign and about 1 billion U.S. dollars domestic, in the period of 1968 — 1971.

The government was directly involved with large industrial investments in the past, however, the prevailing view at present is, that the government will mainly invest in the infrastructure, while leaving the investments in other fields to the private sector. (Foreign loans for state enterprises which operate completely outside the government budget, are still secured by the government).

Although heartening to note that sizable investments could be obtained within such a relatively short period, what are the technologically related aspects of those investments? Let us first look into the area of investments, and the figures in the table hereunder illustrate the facts[13].

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13 Gunaldi K., "Industry, Foreign Investment and Employment", *Prisma* (in Indonesian), No. 5, August 1972.

NEW INVESTMENTS ACCORDING TO SECTORS;

Sectors	Foreign (%)	Domestic (%)
Mining	35	5
Forestry	24	16
Textile	9	—*)
Agriculture	6	10
Industry	16	60
Others	10	9
Total	100	100

Notes: *) Included under industry.

Referring to these figures, marked differences could be discerned as to the preferences of investments, between the domestic and the foreign investors.

The employment-generation of the investments has been estimated, and the foreign investment is expected to create about 130.000 new jobs, while for the domestic investment that figure is 230.000. Considering that the domestic investment is about 50% less than the foreign, the reflection on the choice of technology is visible. This will be more conclusive if the capital-labor ratio is further broken down and compared as these figures attest:

CAPITAL-LABOR RATIO (U.S. $)

	Foreign	Domestic
Forestry	6,726	2,910
Fishery	1,111	1,669
Mining	211,456	27,171
Industry*)	9,775	4,240
Hotels/Housing	10,661	1,460
Transport	8,185	4,072
Construction	8,119	14,666
Textile	20,195	——**)
Chemicals	16,832	——**)
Light Industries	3,653	——**)

Notes: *) average figures

**) no figures available.

These figures show that except for fishery and construction the amount of dollars needed to employ one worker, is markedly higher for the foreign investment than domestic. Whether these differences are completely attributable to the type of technologies employed, needs further investigation.

Some figures on the capital-labor ratio of manufacturing industries are available, and in particular for countries of the Asia region are shown hereunder (Mehta M.M., *"Choice of Labour-Intensive "Product-Mix"* and *"Technology-Mix" in Asian Manufacturing"*, U.N. Asian Institute for Economic Development and Planning, Bangkok, May 1972 ed.).

CAPITAL-LABOR RATIOS (US $)

	India (1965)	R.O.K. (1966)	Taiwan (1965)	Japan (1966)
Textiles	624	938	1.232	1,567
Chemicals	5,523	1,807	5.514	6.459
Metal products	4,951	1,448	2,528	1,630
All manufacturing (averages)	1,455	1,167	2,255	2,579

If those figures are compared with the corresponding figures for Indonesia, surprisingly big differences are noted. Could those figures reflect technological differences conclusively ? Bearing in mind that the figures for Indonesia are new investments, while those for the Asian region probably reflect averages which might include older factories, I am still not completely comfortable. However, due to lack of other data an assumption that the foreign investors are utilizing the latest technologies is probably not very far from the truth. Furthermore the domestic investors tend also to apply modern technology, on a less sophisticated scale.

The preceding paragraph introduces the drama to be unveiled of newly invested technological application within Indonesia, and probably has its parallel in other developing nations. An investment of about 2,5 billion U.S. dollars (sizable for Indonesia) most probably to be realized in about three years, creates employment for about 400.000 persons, or about

130.000 persons per year. Employment is one of the key issues in Indonesia's development planning. In order to appreciate this problem more, expert estimation shows that if Indonesia could generate new employment at a rate of 1.5 million per year, open unemployment by 1985 will be about 4 — 5%. The figure of 130.000 persons per year of new employment dramatizes the case too much, since it is the number of directly employed persons generated by the investment. The secondary effects will put this figure higher; how much higher is hard to estimate, but certainly not sufficiently high to take the unemployment pressure off.

It also illustrates the problems faced by planners in trying to formulate and administrators to implement a policy on technology, where macro considerations are to be in harmony with micro factors, or in short where private interest should be in harmony with the public interest. One merely has to look the figures over in the preceding paragraph on the capital-labor ratios, which usually measures the labor intensity of a manufacturing industry, and so an easy indicator of the degree of technology involved. However, the capital-labor ratio is a function of the factor prices, and does not necessarily merely indicate the degree of technology, since it might also reflect environmental factors. For example the investor has to provide his own electricity, his own water supply, over design his inventory etc. All this is due to environmental factors, and security of production considerations. The result is that capital-labor ratios which could be guidance in determining working criteria for the administrator, becomes not unambiguous. This is just one case, and finding working criteria, easy to handle yet it reflects reasonably well the actual conditions it seeks to control, is fundamental in policy implementation.

Furthermore the big investors with their sophisticated production method, become formidable competitors for the already estabished, small much less technologically sophist-isticated enterprises. Experience in Indonesia within the last two years showed this happen in the textile and the soft drinks industry. Although one can argue and probably right so, that if a complete study is made by taking all factors into

consideration on a national scale, the benefit points towards the big sophisticated industries it is still politically a case worth thinking about.

How likely will those investments induce and accelerate technological spin-offs? In other words, is there any meaningful chance that innovations will be markedly affected by those investments and diffused through society? These are interesting problems and for this conference probably a key matter, so definitely not to be by-passed.

No research data are available from past experiences to guide us in the formulation of workable hypotheses. However, in view of the sketchy knowledge which we have, factors affecting the possible determinants could be found, and summarized as follows. (1) Labor mobility is traditionally not high in Indonesia. (2) The preference of the field of investments in particular for the foreign investors is generally not conducive for wide scale diffusion. (3) The fixed capital needed for investment is generally high in comparison with other countries within the Asian region. (4) The geographic spread of the investments, except for mining and forestry tend to be concentrated in the more urban area, which within the Indonesian context are more developed than the rest of the country. (5) The type of technology utilized, requires in general specially trained staff personnels. On all levels. Quite often foreign staff are required for some duration (rightly or wrongly), and in the past their stay extended well beyond all reasonableness of training. (6) The salaries and other renumerations are generally well above the average, and very much higher than the government pay scale, which becomes good incentives for employment development. (7) It is an observed general policy that the numbers of domestic high level technical staff are minimized, and introduced into the intricacies of the enterprise over an extended period, based on a sharp selective process and incentives.

Looking these factors over, one can easily deduce that, they are non stimulative towards the need for innovation and diffusion, and it will not surprise me if this is confirmed by research in the future. I certainly do wish that I am mistaken in my present assessment.

The illustration presented in the previous paragraphs illuminates the need for a better approach, in the application of technology. The case for appropriate technologies manifests itself, if the need for industrialization is projected against the background of unemployment, which basically is generated by the population and the agricultural problems. Many of us are convinced that developing countries should try to develop a technology suitable for their need, and should not adopt the western technologies found in developed countries, without any further considerations.

However, to put it into practice under the circumstances found in developing countries, is generally easier said than done. On the problem of technological application found in developing countries, the following picture will be found. There is a certain kind of indigenous technology, rooted within the country, and still being practiced towards the creation of indigenous products. On the other extreme end, there will be found the utilization of the most advanced technologies, necessary in some ways, and a result of a not well thought of decision, in many ways, including ineptness of the decision makers towards better alternatives. In between these two extremes are all kinds of possibilities, which also found its way towards utilization either as a historic process or careful considerations. In short the developing countries utilize a broad spectrum of technology, which is dominated in general on the lower side. This is also the case in Indonesia, and well intentioned groups of knowledgeable people are thinking in terms of appropriate technologies, to be developed consciously, and disseminated as effectively as possible.

The basic thinking which is behind the effort to develop appropriate technologies stems from the generally accepted notion, that the choice a society should make in the application of technology is not an either or concept, rather than what should consciously be developed in order to stimulate the growth of development. Too many factors are outside the scope of ordinary control, and the determinants are in so many different fields, so that we accept the most modern which exists side by side with the most primitive, as a fact of life. However, we in Indonesia feel, that efforts should be undertaken

to develop more appropriate technologies, and consciously disseminating it towards applications commensurate within the capabilities of a broader class of society. In order to achieve utilization, the development of appropriate technologies is just one aspect of the total process, and it will not succeed if the other aspects, i.e. the creation of a class of entreprencur-innovators, are not developed. These two should become a well integrated plan to start with, since both are complementary to each other.

As any country, Indonesia also has its science and technology institutions within the government, and operating on the government budget. It is probably the failure of the institutions in the past of not recognizing the importance of the entrepreneur-innovator in the process of technology transfer, is the main cause for the present state of affairs. Objective indicators can easily establish the non-effectiveness of the Indonesian institutions for science and technology, in the process of technology transfer.

While the awareness exists for the importance of research on science and technology towards the support of the development of industry, the implementation so far, are mainly centered around the scientific and technological aspects, of the transfer process. Needless to say that this is a cause for frustration and from my own experience as a member of the workgroup on science and technology policy, I can attest towards this sense of frustration, and this after all the numerous foreign expert missions which have been to Indonesia, each with their own recommendations.

Clearly a basic error has been made in our past outlook, and it is high time for corrective measures.

V. UNIVERSITIES IN INDONESIA AND TRANSFER OF TECHNOLOGY

While in many different parts of the world, the universities are mainly concerned with teaching, research and pursuing other scholarly activities, the Indonesian universities are more directly involved with society. This is the result of

the social consciousness of the universities which developed early, as part of the history of the Republic. Besides teaching and research, there is a general consensus in Indonesia, that public service should also be part of a university's fundamental tasks, and the universities in Indonesia being very conscious of this, take an active role. As a result of this basic outlook, there are variety of professional activities at Indonesian universities which in many countries would not be considered as part of the university's function. This basic attitude of the universities is appreciated by society, and many services are required by it, reflecting its needs, so that society looks towards the universities not only as a learning institution, but also as part of its business community, dealing in various services. This business relationship results in the possibility of cash generation augmenting significantly in many cases the university budget. Obviously not all universities are successful in this venture, however, for some universities its success is a matter for concern, lest it affects the scholarly pursuits and the teaching function.

After some generalities concerning the universities in Indonesia, let me focus on one institution in which I am actively engaged, and relevant to the matter before us. The institute in question, is the "Institut Teknologi Bandung" — ITB or freely translated the Bandung Institute of Technology, an institution of higher learning in the field of sciences, engineering and art. It is the oldest of its kind in the country, having its roots way back in the colonial period, and is at present endowed with a reasonably good staff and sufficient facilities. Within the Indonesia context, the existing staff at present forms the highest concentration of high level manpower covering a broad field of sciences and engineering within one institution in Indonesia. Beside teaching and research, ITB is also actively engaged in providing public services, and using measures usually applied in business, successful in doing so. (As an illustration, a business volume of about 1 million U.S. $ is projected for 1973, which is sizable for Indonesia). The services requested from ITB in the past covered a broad spectrum, ranging from scientific research, surveys, engineering studies, designs, to job order manufacturing, with engineering services leading the rest.

Public services serve a need, which reflects the need of society in its quest towards a better future. Those real needs of society, and the experiences accumulated since 1959, form a strong base towards the formulation of the role of ITB and help to guide the university planners, towards the shaping of the future.

The development of technology in Indonesia, becomes also a matter for concern at ITB, and many of the teaching staff have been involved in one way or another towards contributing thoughts on the national level, on this particular subject. This general consciousness culminates in the acceptance by the university senate, the program at ITB to develop and to disseminate appropriate technologies in Indonesia, as one of the objectives to be achieved in the ITB's development plan in this coming decade. With this decision (which was made in September 1971) the program becomes then a noninstitutional commitment, and to be implemented in a programable fashion. This program obtained support from various sectors of society and the government, furthermore it also gained international cooperative effort. The result of all this is the set up of a Development Technology Center in Bandung. How this center operates will be elaborated subsequently.

The establishment of the Development Technology Center — DTC — followed a carefully outlined plan, after questioning the ineffectiveness of the research institutions. There are indeed several constraining factors, but basic to these all are the exclusion in the past of the entrepreneur-innovator from the whole process of technology transfer. One of the basic innovation of this center is, that it seeks to integrate entrepreneur-innovator training, with technological development. This inspired by Mc. Clelland's findings, that entrepreneurship can be developed, with convincing results. This has been tried out in India with success[14].

In short what we propose to do at ITB, is to bring under one roof the entrepreneur-innovator training in conjunction with the development of relevant technological support, using techniques which can best serve its purpose, and supported by

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14 Patel V.C., "How to Develop New Entrepreneurs".

market research and related factors, which will be tied into credit arrangements with the financial institutions. The center will not be concerned with big time investors employing sophisticated technologies. Product or process development for this kind of ventures will be handled by ITB through a different agency.

It is misleading to assume that the DTC will have its own research facilities, in particular its own hardware in the sense of working laboratory setups. This is not the case, and the DTC plan to utilize the existing research and development institutions for its projects. Within a radius of about 2 miles north of the ITB campus, a significant number of research and testing institutions belonging to different ministries are located. The fields covered by those institutions are sufficiently broad, ranging from basic science, technology, economics, psychology and social anthropology. If well coordinated programs could be maintained, interdisciplinary activities would be achieved without heavy additional investments in facilities and manpower. On a recent national conference, this idea obtained support from the various ministries concerned and in order to achieve harmonious working relationships, the ITB relinquishes its claims on the sole ownership of the Center, ITB proposes instead to set up an institution as a corporated nonprofit body, with a board of directors comprising of a broad segment of society, relevant with the objectives, and funded through a combination of government and private sources.

We are at a stage, where the foundations are being firmly put together; serious talks have been conducted with various international agencies, several commitments from banks and participating institutions obtained, key personnel appointed, prospective members for the board of directors found, while funds and facilities have been set aside by the ITB for its initial operations and capital. The center will be fully operational by February 1973.

The ITB proposed solution is departure from the KIST model which success in Korea is well-known, and let me confess that I personally feel very much attracted to be able to participate in such type of institution. Although not familiar

with all the facts, but from the little what I read, I believe that the government of Korea in its bold decision is motivated by two factors, (1) the slowness of the universities and other institutions on science and technology to adapt themselves towards the changing environments and (2) the availability of a sufficient pool of high level manpower residing abroad and willing to come home.

However, the conditions encountered in Indonesia are completely different and safe to say it is diametrically the opposite. Indonesia does not have a meaningful pool of high level manpower abroad as a resource which could be tapped. Furthermore except the social consciousness of the universities as the cause of its dynamism, another factor in particular for the Technological Universities is the fact that high level manpower in science and technology in Indonesia is mostly found within those institutions. A recent survey showed that 70% of the available persons at present with Ph.D. degrees or equivalent in the field of science and technology, are found in two institutions from which the ITB is one of them. The other is the Institute for Agricultural Technology in Bogor, situated between Bandung and the capital city of Indonesia, and about equally divided between those two. ITB then employs about 10% of the high level manpower in the field of science and technology, and this is one of the main causes of ITB's success in the public services and its dynamism. Furthermore there exists a general feeling that with concepts and innovative management backed up with sufficient funds, something more effective could be achieved by interdisciplinary programs, utilizing the existing facilities which accumulated experience in the past is unreplaceable, before abandoning it altogether. These are all factors which are also considered in ITB's decision; we at ITB are convinced that cost effectivenesswise the ITB solution will be more effective than the KIST model for Indonesia at the present stage. Our aim is the establishment of such DTC's spread all over the country, at least one in every main region. The first one set up in Bandung is just a pilot project, to be evaluated on its merits. We in ITB hope to achieve this.

V. CONCLUSION

While transfer of technology is still an ill understood process, the notion of only thinking in terms of agencies rather than agents for transfer, is likely to inhibit the process more, than to accelerate it. One of the important agents in question in developing countries, is the entrepreneur-innovator, and the development of this class of people should be encouraged. No meaningful technology transfer on a wide scale could be achieved, without them.

The development of appropriate technologies should be undertaken as part of the total process with the aim in mind for wide scale utilization, within the capabilities of the mobilization of other endowment factors for successful undertakings.

The success of the KIST model serves to illustrate the need for total commitments of Governments in developing countries, towards the support of the development in technology as a tool for development.

However, in countries where the universities are sufficiently endowed, they can become agents rather than agencies, to participate actively in the process of technology transfer. What is needed is the basic outlook of universities towards more innovative concepts to serve the relevant problems. The Indonesian case illustrated is one of the possibilities, one of the spin-offs of this outlook is the possible involvement of students directly in the relevant pressing problems of society, and helps to bring education closer with reality.

FINANCIAL INSTITUTIONS IN INDONESIA : SOME NOTES

Y. PANGLAYKIM

BACKGROUND NOTES

The Indonesian banking system during the colonial period was dominated by Dutch and English banks although a limited number of Japanese institutions were also operating at that time. These Dutch and English banks were mainly engaged in financing the Dutch big ten (trading firms) who virtually controlled the Indonesian economy while other activities in the plantation sector were a further important area of banking concern. A small number of national banks (Chinese) had developed, however, their activities were on such a limited scale that for practical purpose they need not be considered here[1].

The net result of these factors was that both the business and banking sectors were dominated by Dutch firms while nationals and other businessmen (Chinese) mainly acted as middlemen for whom with a few chosen exceptions such as the Oei Tiong Ham Concern (Kian Gwan, Toko de Zon Group and the Tan Hin Hie Group) borrowing from the large banking institutions was generally not possible.

The majority of firms had no direct access to the cheap money market and therefore had to be content to generate

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1 There were: four Dutch banks (including Javasche Bank), two English banks; two Chinese banks with H.Q. abroad, two domestic Chinese banks; three Japanese banks (Mitsui among others) and Algemene Volkskrediet Bank.

part of their operating capital by channelling products handled by the big trading firms. With this key sector in Dutch and British hands the lack of development of national entrepreneurship appears to have been very slow and faced by many obstacles.

The close of the Second World War brought an abrupt end to the Dutch administration and despite the return of the Dutch banks and trading firms until 1958 the Indonesian government had become determined to make drastic changes in the Indonesian economic structure.

The shares of the Javasche Bank (which acted as the Central Bank of the former Netherlands East Indies) were acquired (1953) by the government resulting in the establishment of Bank Indonesia as the new Central Bank. Nationals were extended licenses to establish banks while together with these new institutions the government also created Bank Negara Indonesia (now known as B.N.I. 1946) to finance nationals operating in the import and export sectors and Bank Industri Negara (now Bank Pembangunan Indonesia) to finance national industries.

The large, well-known Dutch and British concerns which were taken over by the government in 1958 were: Factorij (now known as Bank Ekspor Impor); Algemene Handelsbank (now Bank Bumi Daya) and Escompto (now Bank Dagang Negara). The so-called "Volkscrediet Bank" (peoples bank) was also taken over and reformed into Bank Rakyat Indonesia.

The outcome of this action continues to have an important bearing on the efficiency of the present state banks. Those institutions which managed to retain the managerial skills of nationals associated with these banks are now considered to be well managed when compared with their counterparts who lack such an asset. The older state banks which were established in this period to undertake the specific mission of extending credit facilities to the new entrepreneurial group suffered heavy losses, B.N.I. which was given the task of assisting this new group of businessmen has found it difficult to recover from the losses incurred during its formation years. Their overhead costs resulting from efforts to establish branches throughout the country as required by the terms of

their mission were a further difficult factor in the reorganization of this state bank. Such factors together with the banks contribution to the development of domestic entrepreneurial skills should be taken into account when viewing the bad debts accumulating in its balance sheet.

The national private banks of which there was at one time more than a hundred now only number approximately 50 of which only 20 can possibly be considered operational. The government has attempted to improve the efficiency and effectiveness of such institutions through its active encouragement of mergers.

In the past, the establishment of private banks has been associated with political and business groupings in the country whose intention has been to use such banks as a vehicle to finance their other activities in trade, industry and particularly the commercial sectors (imports).

The currently fragmented structure of the national private banks is therefore a heritage not only of the past but also of the atomistic Indonesian business structure.

Following an initial period during which developments tended towards widespread state ownership, the present government has reversed this policy by encouraging private business activity including the extension of an invitation for overseas firms to operate in Indonesia under the Foreign Investment Law.

THE BANKING STRUCTURE AFTER 1966

Central Bank: Bank Indonesia operates as the central bank under the direction of the Governor and Executive Directors. All activities of both banks and other financial institutions are under its direct supervision in addition to which it acts as the comptroller of the Government.

The Governor is a member of the Economic Stabilization Council, a body which meets regularly presided over directly by President Soeharto. Together with the Economic Stabilization Council there also exists a Political Stabilization Council in

which the Governor is not included but in which the Minister of Economics, Finance and Industry (EKUIN) is a member.

State Banks: the following are known as the Indonesian state banks:

Bank Rakyat Indonesia (B.R.I.), a commercial bank specializing in agriculture, fisheries, co-operatives and rural development credits.

Bank Ekspor Impor Indonesia (B.E.I.I.), a commercial bank specializing in the granting of credit for the production, processing and marketing of export products.

Bank Negara Indonesia 1946 (B.N.I. 46) which has been assigned the granting of industrial credits.

Bank Bumi Daya (B.B.D.), a commercial bank specializing in estate agriculture and forestry credits.

Bank Dagang Negara (B.D.N.), a commercial bank specializing in mining credits.

Bank Tabungan Negara (B.T.N.) is a government savings bank.

Bank Pembangunan Indonesia (BAPINDO) is a state development bank.

The commercial banks, although they are officially seen as specializing in mining, industry, or other such sectors, in practice also frequently finance trade, industry and other fields resulting in a measure of overlapping in their activities.

Bank Bumi Daya which supposedly specializes in agricultural and forestry credits is also engaged in financing mining which should be the task of Bank Dagang Negara while Bank Dagang Negara for its part also finances industry. Thus there exists a large degree of flexibility in the implementation of Central Bank policies with regard to their field of specialization.

National Private Banks: The national private banks can be effectively divided into foreign exchange and non foreign exchange institutions.

The foreign exchange banks are: Pan Indonesia, Bank Umum Nasional, Bank Bali, Perdania (a private foreign exchange bank in joint operation with Daiwa Bank) and Bank Dagang Nasional Indonesia (B.D.N.I.), Bank Niaga, Bank Pacific, and most probably Bank Buana Indonesia.

Within the non foreign exchange banks various groupings exist such as the Bank Niaga, Bank Pacific, Central Asia and Bank Buana Group which, through mergers, have the potential of becoming foreign exchange banks.

Foreign Private Banks: In 1969 the government issued licenses to foreign banks to operate within Indonesia. The activities of the institutions in this field are confined to the Jakarta region unless joint financing is arranged with national private banks in order to finance activities outside Jakarta.

The following foreign private banks are at present operating in Indonesia: American Express, First National City Bank, Chase Manhattan Bank, Bangkok Bank, Bank of Tokyo, Hong Kong and Shanghai Bank, Chartered Bank, Algemene Bank Nederland, Bank of America and European Asian Bank.

In addition it appears that nearly all of the internationally known banks have established representative offices in Jakarta, including Fuji Bank, Pierson Heldring and Pierson, Sumitomo Bank, National Grindlays, Brinckman and Wirtz, Bank of Nova Scotia and Toronto Dominion Bank, while even those banks which do not have such offices appear to cover the Indonesian area from their operations in Singapore or Hong Kong.

OTHER FINANCIAL INSTITUTIONS

The development banks are those institutions primarily operating at the medium term loan level namely (1) Bank Pembangunan Indonesia (BAPINDO), (2) Private Development and Finance Company of Indonesia (PDFCI) the shareholders of which include Bank Indonesia, Pan Indonesia Bank (a private national Bank), I.F.C. 8%, Nippon Fudosan 8%, Irving International Finance 8%, Bank Nova Scotia 4%, Darling Holding 4%, Credit Lyonais 2%, Boneo Roma 2%, Lloyds &

Bolsa International 2%, West Deutsche Landesbank Girozentrale 2%, while the Indonesian group (Bank Indonesia, Pan Indonesia Bank, etc.) control 60%, and (3) Indonesian Development Finance Corporation (Bank Indonesia 50% and Nederlandse Financierings Maatschappij 50%).

There are at present eight investment banks which are supposed to act as long term financiers and underwriters of industrial companies. All such institutions have at least three foreign partners who should come from different countries. The following are the so-called merchant bankers:

P.T. Merchant Investment Corporation

This consists of the following share holders; Bank Ekspor-Impor (10%), Morgan Guarantee, International Finance Corporation (34%), Sumitomo Bank (34%) and Bank Mess Hoop (20%).

P.T. Indonesian Investment Corporation

Bank Dagang Negara (25%), First Chicago (35%), Mitsubishi Bank (20%), Nikko Securities (10%), and National Bank of Australia (10%).

P.T. First Indonesian Finance and Investment Corporation

P.T. Bina Usaha (holding company owned by the Bank Indonesia) (50%), Pierson Heldring & Pierson (8½%), Rotschild Intercontinental (7½%), Industrial Bank of Japan (7%), Bank of Montreal (7%), Banque Lambert (7%), Amfas Group (insurance) (5%), First City Bank of Cleveland (5%), Seattle First National Bank (2½%), and National City Bank of Cleveland (2½%).

P.T. Mutual International Finance Corporation

P.T. Mutual Development Corporation (34½%), Pan Indonesia Bank (7½%), Fuji Bank (Schweiz) (20%), Fuji Bank Tokyo (6%), Crocker International Bank (17%) and Commercial Bank of Australia (15%).

P.T. Asean (Asian and Euro-American Capital Corporation Ltd.)

Dai Ichi Kangyo (8½%), Kleinwort Benson (8⅓%), Bank Bumi Daya (50%), Banque de Paris et des Pays Bas (8⅓%), Desdner Bank (8⅓%), and Union Bank of Switzerland (8⅓%).

P.T. Financial Investment Corporation of Indonesia

Bank Negara Indonesia 1946 (10%), Hannover (17%), Barclays International (17%), Mitsui Bank (17%), Nomura Securities (19%), Commerz Bank (17%), Banque Français de Exterior (10%).

P.T. Inter Pacific Financial Corporation

Bank Rakyat Indonesia (10%), Continental Bank SA/N.V. (45%), Sanwa Bank (41%), and Credit Commerce de France (4%).

P.T Multinational Finance Corporation (Multicor).

Bank Central Asia (27½%), Tardine, Fleming and Comp Ltd. (20%), The Long Term Credit Bank of Japan (17½%), The Royal Bank of Scotland (15%), Asia Insurance of Hong Kong (Bangkok Bonn Group (10%), Chemical Part of New York (10%).

P.T. Bahana, government owned investment bank, to finance the indigenous groups. P.T. Bahana which was established in April 1973 is designed to finance and assist the development of small and medium scale firms and industries.

The eight merchant bankers are permitted to participate in industrial ventures to a maximum level of 25%, underwrite stock issues to be floated in the established capital and money markets or through private share placements, issue guarantees, organize leasing arrangements and accept commercial paper, however, they are not permitted to extend medium term loans in order to prevent competition with the development banks nor are they allowed to accept deposits. These banks must also observe a ratio of 15 - 1 in terms of their lending capacity. Such restrictions were possibly purposely imposed in the light of developments in the capital and money markets

of the country and can therefore be expected to be removed as policy makers become increasingly convinced of the need among national industries for medium term capital. Many observers believe that these institutions are the most suitable agent for such credit due to their ability to extend "tailor made" financial arrangements to the various branches of industry.

STATE AND NATIONAL PRIVATE BANKS

From Table 1 it can be seen that the state banks extended 89.4% of the total level of official bank credit in 1972. This consisted not only of credit for operating capital but also the so-called investment credit (see Table 2). Such investment credit is made available to domestic investors operating under the Domestic Investment Law. If the projects are considered feasible (the proof of which entails a feasibility study by a consultant recognized by the particular state bank) an amount equal to 25% of the total credit must be supplied by the domestic investor with the balance (75%) coming from the state bank.

The private banks appear to have been excluded from this operation with the result that state banks have come to dominate credit allocation. The state banks receive 75% of such credits from the Central Bank with operating capital generally being supplied from their own funds generated from Asian Dollar loans abroad, certificates of dollar deposits from non-banks institutions and from domestic depositors.

There exists at present a ceiling on the level of dollar loans which may be extended, a level which was at one time exceeded by certain of the state banks.

These banks having increased their borrowing capacity overseas are in fact in a position to make substantial dollar loans and while at present it may be true that such borrowing is of a short term nature; it appears that they are now also in a position to generate funds from the medium and long term money market.

TABLE I.

TOTAL BANK CREDITS (Million of Rupiahs)

	DECEMBER 1972		SEPTEMBER 1973			
	Total Credits	% of Total	Total Credits	Pro-duction	Export	Others
1. Bank Indonesia	127.305	19.4	207 708	18.234	——	189.471
2. State Banks	460 684	70.0	652.247	343.404	41.954	266.889
3. Private Banks	43.560	6.6	58.363	17.396	1.264	39.703
4. Foreign Banks	26.143	4.0	42.413	7.337	658	34.413
Total Banks	657.692	100.0	960.731	386.371	43.876	530.484

Source: Indonesian Financial Statistics; December 1973; Bank Indonesia.

Of the December 1972 total of 657.692 million rupiah, credits were allocated for production 305.176, exports 35.754 and others 316.762.

TABLE 2

INVESTMENT CREDITS

	End of February 1973	End of August 1973
Credit ceiling	*146.302*	*156.974*
Agriculture	11.852	16.225
Manufacturing	74.797	78.106
Mining	465	495
Communication and Tourism	54.024	55.894
Other	5.164	6.224
Outstanding Credit	*96.079*	*105.852*
Agriculture	7.769	8.287
Manufacturing	57.304	59.635
Mining	237	230
Communication and Tourism	28.850	34.061
Other	1.919	3.639

Source: Indonesian Financial Statistics, December 1973, Bank Indonesia.

If we take account of the dominant position of state banks in the Indonesian credit system it would appear more appropriate if they were authorized by the Central Bank to take up options on the shares of those industries which from the banks assessment can be expected to yield profits. Through such arrangements the banks could benefit from increasing share values which could be later sold at their intrinsic value, the profits from which could be reinvested in the bank to allow further expansion of its activities.

The government does not currently permit the formation of industrial groups around banking institutions. The main reason for this prohibition on equity participation appears to be the prevention of conflicts of interest and empire building which could distract the attention of bank management. This ruling appears to be the result of a government policy of not allowing excessive direct state participation in industry. It could be argued that the borrowing capacity of these banks could be used for equity participation in order to increase the bargaining position of the national firms.

The level of investment credit and other financing extended to the various sectors can be seen from Table 2.

The necessity of providing both feasibility reports and 25% collateral to obtain investment credit appears to have effectively prevented many *pribumi* (indigenous) entrepreneurs from enjoying these facilities. Conversely the resultant disproportionate level of credit extended to *non-pribumi* (non-indigenous) firms and the consequent contributions this has made to widening the gap between the economically strong and weak groups has become a national issue. This has resulted in, among other things, the creation of P.T. Askrindo to insure credits extended to the *pribumi* group without the required collateral and P.T. Bahana to provide collateral on behalf of the prospective pribumi entrepreneur.

P.T. Bahana is apparently to actively participate in the fostered firm until such time as these enterprises can operate independently when the shares are to be offered to the entrepreneur.

The state banks have now been instructed that only *pribumi* firms are to be extended investment credit. For a

venture to be defined as *pribumi* for this purpose at least (a) 50% of the shares should be in *pribumi* hands provided that the majority of management is *pribumi* or (b) 75% of the shares should belong to *pribumi* in which case management can still be in *non-pribumi* hands.

It appears that the decision on credit extension by the bank is based primarily on the 50/50 (a) criterion thereby rendering the majority of existing enterprises ineligible for such credit.

It is expected that many of these excluded firms will turn to be foreign banks for investment credit, however, political and other considerations will presumably combine to make these banks cautious in such financial dealings.

With the exception of a small group of well managed institutions the private national banks have not developed into a strong position but have rather declined in importance. Given the shortage of capital and suitably skilled manpower together with the fragmented business structure, merger may provide one answer to the problems in this sector. There are, however, those who are of the opinion that such action would merely represent the aggregation of numerous small problems into a single large problem. It is certainly true that the government has encouraged the private national banks to merge and many new groups have in fact been formed including the P.T. Pacific Bank Group, The Bank Niaga Group, The Bank Buana Group, P.T. Central Asia Group, Panin Group.

A further possibility which may not be acceptable and which is also at the present time against government policy is to allow foreign banks to obtain a minority share in the private national bank sector. This "pragmatic" view is not as yet digestible as private national institutions remain an interest group and to accept shareholders from outside such groups has always proven to be one of the most difficult aspects of mergers. It appears rather illogical that a bank which operates with funds from the public should be wholly owned by a group of individuals who resist inclusion of other parties willing to purchase minority shares in the organization.

This feature of the Indonesian private banking system could prove to be the most hampering factor in its development and could also come to be seen as not only unacceptable to the public and banking authorities but also against the international trend towards separation of ownership and management.

FOREIGN AND NATIONAL PRIVATE BANKS

If one examines the ten foreign private banks on the basis of a comparison with the more than 50 national private banks it can be seen that the former will in the near future, surpass the latter in terms of the total amount of credit extended. This trend can be expected to be hastened as the state banks begin to decrease their credit provision to the *non-pribumi* firms. Foreign banks with their "unlimited" borrowing capacity abroad appear to represent the only lending institutions adequately equipped to provide sufficient credit lines to this group. This conclusion is reinforced by the current trend in public deposits towards these foreign institutions again reflecting an increase in their domestic borrowing capacity.

ALLOCATION OF CREDIT

It is the policy of the government to allow credit on a selective and well directed basis, in particular it must be channelled into productive industries. As we have seen above the level of credit allocated to the production sector in 1972 was almost equal to that of the category "other", (a category comprising largely of import financing).

To obtain an import credit the importer must deposit 40% of the total value of the goods before they open their letter of credit at which time the bank will provide the remaining 60%. This system of financing is quite direct and is in fact considered to be the most easily handled form of financing.

If we compare the 1972 figures with the situation prevailing in September 1973 we can see that while production credit increased by 26,6% and export financed by 22.7%, the

category "others" recorded a substantial rise of 67.5%. This latter result may have been largely attributable to increased import prices consequent upon both the oil crisis and the accelerating inflation in the industrial nations.

If we examine the composition of investment credits we find that the majority of these were extended to manufacturing followed by communications and tourism.

INTEREST RATES

The interest rate in the banking system is determined on the basis of the end use of the credits. Investment credit is extended at 12% annually, computed on a quarterly basis (non-compounded).

The private national banks are generally not involved in financing investment credits but rather in assisting the private sector in the import sector. Interest charges by these local banks is in the range of 2 — 4% monthly depending on the period of the loan. To meet short term requirements financiers may charge up to 5% monthly particularly during times such as the present rigid liquidity situation when importers may require cash for one or two months to clear their goods from the ports.

Foreign banks which extend dollar loans to private firms may charge approximately 18 — 24% annually including margin and withholding tax for dollar loans.

DEPOSITS

In order to encourage public saving the government in 1969 was offering 4% monthly for time deposits of six months or longer and 5% monthly for one year or longer. The result of this earleir policy was that many businessmen placed their capital in time deposits rather than investing it in business activities, however, interest rates since that time have been gradually reduced and on 12 April 1973 were as follows:

1. 1 month and more — ½ percent per month
2. 3 months and more — ¾ percent per month
3. 6 months and more — 1 percent per month
4. 1 year and more — 1¼ percent per month

Table 3 below gives us the level of deposits.

TABLE 3

OWNERSHIP OF DEPOSIT OUTSTANDING WITH THE STATE BANKS (Million rupiahs)

	December 1972	June 1973
Commercial Banks	23.898	23.543
Private National Banks	1.956	1.237
Local Dev. Banks	1.153	1.072
State Banks	1.807	3.407
Branches of foreign banks	18.982	17.827
Foreign banks	20.050	36.064
Saving Banks	1.253	1.509
Government institutions	659	6.528
Insurance companies	6.409	7.144
State Companies	9.765	7.213
Private enterprises	6.878	11.390
Social foundation	18.299	25.232
Individuals	58.436	42.068
	145.825	160.691

Source: Ibid., page 61.

Foreign banks have deposited their money with the state banks possibly including dollars which had been transferred to Indonesia specifically to be invested against the above mentioned interest rates.

Individuals, the largest single group of depositors, also preferred state banks although their total deposits declined from 58.426 to 42.068 million rupiahs in line with the lowering of interest rates.

The overwhelming majority of time deposits were in the 12 months and over category as can be seen from Table 4.

TABLE 4

12 months	—	Rp.	125.142 million
6 months	—	Rp.	16.333 million
3 months	—	Rp.	4.150 million
1 month	—	Rp.	1.396 million
Total		Rp.	147.021 million

As from April 1974 the monthly interest rate for two monthly years deposit is 2½%.

TYPES OF FINANCE

In developed societies many firms are allowed to maintain an overdraft (called in Dutch *rekening courant krediet)* which can be drawn upon to the ceiling level without justifying the use of the acquired funds for as long as the firm maintains an active account with the bank. Such overdrafts are still extended to certain large firms with long standing relations with the bank, however, this applies only to a very privileged few.

It has now become the policy of the financial institutions to grant credit for specific purposes such as investment credit or credit to finance the purchase of imports. All of the above types of financing are generally extended by the state and private banks.

Indonesia has recently begun to establish many new industries and while foreign firms can acquire medium term loans through their home offices, the Indonesian partners find it extremely difficult to gain access to such capital sources. While investment credit may have represented a possible exception to this situation even this is now becoming increasingly difficult to obtain. The state banks have often

developed sufficient borrowing capacities to extend such medium term loans, however, activity in this field is prohibited, because it is felt to be in the sphere of the development banks.

In reality the development banks (of which only one of the total number of three is operational) cannot cope with the thousands of requests they receive. Even if we assume that these institutions have access to sufficient capital to satisfy the demand they still lack the manpower, expertise and other resources required by the task of tailoring credit to suit thousands of financial requests, not to mention the demands for operating capital and the purchase of equipment for industries such as those which exist in the logging sector.

The state banks and other financial institutions are then limited in their ability to cope with the variety of financial needs, with the result that many foreign firms, particularly the Japanese big ten (Zaikais) have been extending various types of credit (as part of the *package deal* principle, as a means of securing raw material supplies or to sell their equipment etc.). Such short and medium loans which appear to be generally beyond the control of the government are being increasingly used in areas such as the logging industry to secure raw material supplies and other concessions.

Given these limitations on the operational scope of state and private banks they have had to increasingly channel part of their *tailor made* finance through the investment banks which they are establishing. These investment institutions will in the years to come develop into the type of operations now known in the city circle as merchant banks.

MACRO-ECONOMIC DEVELOPMENT 1966 - 1973

Anwar NASUTION

1. AGGREGATE OUTPUT

In the years 1966 — 1967 Indonesia's GNP grew at an average annual rate of 1,4% as is shown in table 1. This economic growth rate was lower than that of population which stood at an average of 2.4% during the same period. This means that public prosperity in terms of income per capita actually declined.

The present New Order government took over power from the previous administration after the abortive PKI coup in October 1965 and immediately began to take steps to loosen the tightly regulated economy and to concentrate on stabilizing and rehabilitating the economy. This was done between October 1966 and March 1969. The series of measures taken to stabilize and rehabilitate the economy created a favourable climate for the business world in that it was encouraged to step up the utilization of the existing production capacity which had hitherto been under-utilized because of the shortage of spare parts, raw materials and auxiliary inputs. The climate in 1968 was so favourable that it was possible to attain considerable increases in agricultural production, especially of food.

A relatively stable growth occurred in the period 1969 — 1972 during which time the Government on April 1967 launched its first Repelita (Five-Year Development Plan). Though in this period food production did not score the same spectacular increases that it had in 1968 (and even declined in 1972), the

GNP continued to rise largely due to considerable production increases in the industrial and mining sectors. In the period 1968 — 1972 the GNP grew at an average rate of 7% a year while during the first three years of Repelita I (1969 — 1972) the figure was 7.1%. The national income figures shown in table 1 for the period 1968 — 1972 cannot be compared to those in the preceding years because of a revision of data sources and calculation methods in certain sectors.

Gross capital formation showed a continuously rising trend from 4.6 and 8.1% of the GNP in 1966 and 1967 respectively to 9.9% (1969); 12.2% (1970); 13.4% (1971); and 15% (1973) of the GNP at constant 1960 prices. These figures still fail to represent a level of self-sustained growth which calls for an investment rate of 20% of the GNP, however, the upward trend in capital formation in the period 1969 — 1972 gives reason to expect that progress in this respect will continue to be made.

The role played by public consumption showed a downward trend as follows: 9.2% (1966); 8.1% (1967); 8.2% (1968); 8% (1969); 8.7% (1970 and 1971); and 8.2% (1972). This continuous decline was caused among other things by the fact that the New Order government assigned a bigger role to the private sector. Further reasons were a reduction in military expenditures and the fact that the Government did not raise its routine expenditures including outlays for the salaries of civil servants and servicemen in particular, as rapidly as the development expenditures increased. The low level of public consumption was closely related to inefficiency and inadequacies in the capacity of the state administration. Still, as development increased so did the role of the public sector. This can be perceived from the Government's efforts to raise the salaries of its employees at the start of every new budget year in an over-all as well as sectoral manner proportionate to the improvements achieved in the states administrative capacity to implement economic development activities.

Private consumption rose rapidly from 80.1% in 1966, to 85.9% (1967); 84.6% (1968); 83.3% (1969); 80.1% (1970); 78.7% (1971) and then declined to 77.3% (1972). As a whole

the high level of private consumpton were made possible by the fact that imports rose at a faster rate than in previous years whereas this growth was, in turn, made possible by the availability of foreign credits and aid. The downturn in private consumption since 1968 is expected to continue thereby enabling the expenditure of greater portions of the national income on capital formation, exports, and public consumption.

Exports in 1966 and 1967 declined in value when compared to the preceding period. In 1966 they totalled Rp. 55.6 billion and in 1967 Rp. 58.5 billion compared to Rp. 64.7 billion in 1963 and Rp. 56.7 billion in 1961. In the period 1968 — 1973 receipts from exports increased more than 200% from Rp. 61.3 billion to Rp. 123.2 billion in 1972. All these figures are based on 1960 market prices. The contribution of exports to GNP formation rose from an average of 12 - 13% a year in 1966 — 1968 to 14% (1971) and 19.4% (1972). On the other hand imports of goods and services also increased at a continuously accelerating rate causing chronic deficits in current transactions. Though imports of consumer goods began to diminish in 1969, the over-all import figure continued to rise due largely to constant increases in the import of capital goods and industrial ingredients that could not as yet be produced in Indonesia. This trend is expected to continue for two or three more Five Year Plans until the country is capable of establishing industries that produce capital goods and industrial ingredients. Until that time development activities will greatly depend on imports. Thus it follows that Indonesia must continually increase her export capacity if she is to have enough foreign exchange at her disposal to finance these imports. Otherwise the high investment rate required by economic development will have to be maintained by admitting more foreign capital of obtaining foreign aid in fairly large amounts.

2. COMPOSITION OF OUTPUT ACCORDING TO ECONOMIC SECTORS

Table 2 shows the composition of the GDP according to the various economic sectors. It is clear from this table that the agricultural sector played a dominant role in the formation

of Indonesia's GDP. Trade was the second major sector contributing to the GDP followed by manufacturing. These three sectors among them accounted for 72.9% and 72.7% of the 1971 and 1972 GDP respectively.

Another conclusion that can be drawn from table 2 is that an important shift occurred in Indonesia's economic structure, especially after Repelita I was launched. Up till 1968 agriculture's contribution to the GDP varied between 51.3 and 53.9% while since 1967 the figure has gradually dropped so that in 1972 it was only 43.9%. This diminishing contribution by agriculture has been balanced by the growing importance of the mining, construction, trade and banking sectors. The contributions of these five sectors to the formation of GDP rose by the following amounts between 1968 and 1972: mining 4.0 to 6.2%; manufacturing 8.2 to 9.3%; construction 1.9 to 3.3%; trade 15.8 to 19.5%; and banking 0.8 to 2.6%. This shift in the composition of output was caused by the slowness with which agriculture grew on the one hand and the rapid pace at which the economic development process as a whole took place on the other. Though in the period under review the manufacturing and construction sectors still played a relatively small role, this is expected to change as the development process continues.

The rate of growth in the agricultural sector during the first three years of Repelita I stood at an average of 3.15% a year. A fast growth occurred in the forestry, animal husbandry, and fishery and plantation sectors, namely 27.03, 5.81 and 4.65% a year respectively. In the food stuffs sector the average growth rate was 1.39% a year.

In the industrial sector where textile production dominated, the average growth rate was 9.23% a year with large industries recording 11.96% and medium industries 2.6% increases annually. Growth in the mining sector averaged 13.58% a year as a result of increased production and world market prices of petroleum and other minerals and the opening of new mining ventures such as the copper mining in Irian Jaya.

Two interesting factors are considered to have brought about the rapid growth in the above mentioned sectors. One is the occurrence of a shift in production techniques namely

a growing tendency towards the use of capital-intensive techniques and while the second was the development of larger corporate units. These two factors became even more prominent with the entry of foreign capital into those economic sectors.

3. CAPITAL FORMATION, ENTRY OF FOREIGN CAPITAL AND DOMESTIC SAVINGS.

Table 1 shows the development of gross capital formation at constant 1960 prices, however, it is advisable to view this factor in the light of the price levels that applied during each year concerned, for only in this way will one perceive the decisive changes that took place in prices especially during periods of inflation. To enable this comparison gross capital formation at current prices is presented in Table 3 .

The conclusions which can be drawn from table 3 are, firstly that the rate of investment in Indonesia is very low and secondly, that capital formation has risen continuously since 1966. The very low rate of investment demonstrates that Indonesia has not yet reached a state of accelerated growth, however, such levels are not surprising when one recalls the fact that the Indonesian economy was in a constant state of inflation up to 1966. In 1967 inflation began to be brought under control and as a result gross capital formation rose rapidly from 4.6% in 1966 to 8.1% in 1967 and further to 17.9% in 1973, (all are measured in percent of GDP). The level of gross capital formation in 1972 was twice that of 1966. With a continually improving business climate it can be expected that gross capital formation will continue to rise.

Because there are still few domestic industries capable of producing capital goods, raw materials and auxiliary inputs, increased investment means increased imports as can be seen from table 4. Imports of capital goods in 1972 reached a level two and a half times higher than that of 1969. Imports of raw materials showed a continuously rising trend as a consequence of increased production activity and investment.

An important question is: to what extent was this increase in capital formation financed from domestic savings and to

what extent did Indonesia increase her domestic savings. If the usual procedure is followed for calculating the level of domestic savings by deducting the net amount of admitted foreign capital from the amount of gross capital formation. The figures for domestic savings in table 3 were calculated in this manner. The amount of admitted foreign capital is obtained by deducting imports from exports of goods and services.

According to table 3 domestic savings were on the decline in 1966 and 1967. As indicated earlier, in these two years Indonesia's economy was being subjected to measures aimed at curbing inflation and observing strict austerity. In 1968 the level of domestic savings rose to 4.09% and four years later, in 1972, this figure had almost tripled to 13.3% of GNP at current prices.

Though this increase in domestic savings indicates an improvement of the economy since 1966 Indonesia will still need to mobilize her own domestic resources on a larger scale if she is to achieve a rapid rate of economic development.

Up till the present Indonesia has remained a nett importer of capital. This enables her to maintain at least a minimal level of capital formation even though domestic savings decline to zero or nett dissavings. The figures in table 3 show that domestic savings were not sufficient to finance the entire capital formation process. In 1968 the level of capital formation stood at 6.9% of GNP while domestic savings were recorded at a mere 4.09%. In 1972 the rate of capital formation was 17.9% of the GNP and that of domestic savings only 13.30%. Investments were able to grow at this rate because of increased government and private business savings and foreign capital. Indonesia still needs time to be able to replace foreign capital entirely with domestic savings in her capital formation process.

4. CURRENT ACCOUNTS.

The current accounts also underwent continuous improvements. Though exports have continued to increase since 1966

current transactions remain negative as can be seen from table 4.

Exports increased from $ 714 million in 1966 to $ 995 million in 1966 — an increase of 36.49% within two years. This increase in value mainly resulted from the higher prices and increased volume of timber and oil exports. The value of imported goods and services was even greater than that of exports so that the current accounts remained unfavourable from year to year. This deficit amounted to US $ 436 million in 1972. The rescheduling of foreign debts incurred during the previous regime in addition to the receipt of new foreign aid and credits and the entry of foreign capital enabled imports of goods and services to increase rapidly.

Table 5 shows how the import of goods, specified according to economic groups, developed. The value of capital goods in 1972 totalled US$ 769.8 million which was more than six times the total value of imports of the same category in 1966 when the figure was US$ 121.7 million. Raw material imports rose from US$ 180.3 million in 1966 to US$ 990.3 million in 1973 — a more than five-fold increase. Imports of consumer goods multiplied about three and a half times from US$ 224.7 million in 1966 to US$ 769.8 million in 1973. The rapid increase in imports in 1968 was caused by increased rice imports which had to be resorted to because of a shortfall in the domestic paddy harvest following a prolonged draught.

5. GOVERNMENT FINANCES.

Considerable progress was also achieved in the development of the state budget. Firstly, the Government succeeded in simultaneously increasing its receipts as well as expenditures. In the period 1966 — 1967 the amount of domestic receipts was not sufficient to cover the government's expenditures so that this deficit had to be filled with funds from the countervalue of foreign assistance. Secondly, since 1968 care has been taken that the government's routine expenditures are balanced by the amount of receipts i..e. domestic earnings plus the foreign exchange value of foreign aid and credits. Thirdly, since the

first year of Repelita I (1969/1970) the time span covered by the budget year was changed from one that was identical with the calendar year to a period beginning in April and ending in March of the next calendar year. Furthermore part of the domestic receipts have beeen set aside as government savings which are used to finance development activities. Such government savings are the balance between its domestic savings and routine expenditures. The entire counter-value of foreign credits and assistance is exclusively used to finance developmental expenditures. Also since 1969/1970 the state budget as a whole began to show a surplus. Fourthly, the role of foreign aid measured as a percentage of either the state revenues as a whole or of the amount of the development budget, became smaller and smaller. Fifthly, beginning in 1972/1973 the amount of receipts from direct taxes exceeded that of receipts from indirect taxes.

In 1966 state revenues amounted to only Rp. 13.14 billion and expenditures to Rp. 29.43 billion resulting in a deficit of Rp. 10.29 billion. In 1968 the state budget began to stop suffering from deficits — an achievement made possible by the receipt of foreign aid. In that year the level of receipts for the first time equalled expenditures at Rp. 185.28 billion. Receipts in 1969/1970 were Rp. 334.77 billion or 24.7 times the level of 1966 while expenditures which stood at Rp. 334.68 billion, were 11.3 times those of 1966.

The development of receipts and expenditures in the seven years since 1966 is shown in table 6.

From this table it is evident that state receipts increased at a faster rate than expenditures. Compared to the first year of Repelita I the amount of receipts in the fifth year of the plan increased 3.39 times and that of expenditures 3.38 times. Routine receipts meanwhile increased 3.97 times, developmental receipts 2.24 times, routine expenditures 3.29 times and developmental expenditures 3.48 times the corresponding amounts in the first year of the Plan. The amount of government savings rose continuously and in the fifth year of the plan they totalled 9.37 times the amount in the first year of the plan. During Repelita I the state budget recorded its largest surplus ever, this occurring in 1971/1972 when the

surplus was 206.1 times that recorded in the first year of the plan. In the fifth year of the Plan the surplus amounted to 82.4 times the amount reached in the first year. Since 1968 Government receipts and expenditures have each been divided into their routine and developmental components.

5.1. GOVERNMENT RECEIPTS

Government receipts break down into routine i.e. receipts from domestic sources, and developmental i.e. receipts originating from the counter-value of foreign credits and assistance. The development of actual government receipts in the seven years since 1966 is shown in table 7.

From this table it is clear that receipts from direct taxes still did not play an important role as a source of income to the state although there was admittedly an impressive increase in their development. In the fifth year of Repelita I receipts from direct taxes were 2.52 times the amount in the first year. The contribution of these taxes to the annual overall state income remained the same at 17.77%.

Most of the receipts from direct taxation consisted of oil company taxes which accounted for 68.5% of the 1973/1974 total. The second largest contributor was MPO taxes which comprised 11.2%, followed by company taxes 8.7% and income taxes which made up 6.6% of the total. Other direct taxes that added to the state income included IPEDA (Land Tax) which began to be entered into the state budget in 1972/1973.

According to Law No. 8 of 1971 on Pertamina (state oil enterprise), oil company taxation was to be 60% of the net operating income of the oil companies operating under work contracts or production sharing ventures in Indonesia.

Law No. 8 of 1967 and Government Regulation No. 11 of 1967 altered the procedures for income tax, property tax and company tax collection which had been in force since 1944, 1932 and 1925 respectively and introduced the new system of Menghitung Pajak Sendiri (MPS) and Menghitung Pajak Orang Lain (MPO). Under the MPS system the tax payer himself calculates, pays and reports the amount he owes the

state over a certain taxable period. MPO means that someone or some agency is assigned to calculate the amount of tax payable by an individual for a certain taxable period. MPO serves as a complement to MPS. The change in tax collection procedures was effected in an attempt to step up receipts from direct taxation in a situation where the official tax collecting agencies were still unable to function properly and the public was generally still ignorant or lacked consciousness of its obligation to pay taxes according to the existing laws and regulation.

Indirect taxes consisted of customs and duties, sales tax on imports, domestic sales tax, export tax, net oil profit tax and others. Though domestic production activity and the volume and value of both exports and imports all increased during Repelita I, the role of indirect taxes in the overall level of domestic receipts underwent a steep decline from 53.9% in 1969/1970 to 37.6% in 1972/1973 and 34.9% in the proposal State Budget for 1973/1974. The increased economic activity referred to above was reflected only in an increase in the absolute amount of receipts from indirect taxes: the level in the fifth year of Repelita I was almost twice that of the first year.

Import duties accounted for 38.6% of total receipts from indirect taxes in the 1969/1970 budget year; sales tax for 10.1%, import sales tax for 10.6%, excises for 21.5%, net oil profit tax for 11.7%, export foreign exchange tax for 4.9% and other indirect taxes for 2.6%. In 1973/1974 the contributions made by these assorted taxes to the entire amount of receipts from indirect taxes were as follows: import duties 31.03%, sales tax 13.2%, import sales tax 12.2%, excises 14.9%, export foreign exchange tax 16.6%, net oil profit tax 8.1% and other taxes 3.9%.

Taxes on international trade i.e. the total of import duties and export foreign exchange tax, accounted for almost half of the entire amount of receipts from indirect taxes as follows: 43.5% in 1969/1970 and 47.6% in 1973/1974. The contribution of taxes on international trade to the total amount of domestic receipts was 26.7% in 1969/1970 and 20.3% in 1973/1974.

The percentage decline in receipts from taxes on international trade is closely related to a change in the composition of imports and a lowering of import duty tariffs. In 1968 the structure of imports by economic groups was as follows: consumer goods 37.23%, raw materials 35.17% and capital goods 27.6%. In 1973 this structure underwent a shift in favour of capital goods and raw materials which were subject to relatively lower duty tariffs and the percentage became: capital goods 46.2%, raw materials 39.7% and consumer goods 14.1%.

As from January 31, 1973 the Government replaced the old import duty tariff system which was based on the Geneva Classification System with another one based on the Brussels Tariff Nomenclature (BTN). The BTN provided for a more simplified import duty tariff structure. It consists of 13 basic tariffs ranging between 0 and 100%, 14 different exemptions and surcharges are specified so that there are 27 different effective tariff rates. The old tariff system consisted of 49 diferent effective tariff rates ranging between 0 and 300%. The highest tariff in BTN is 270%. The old system consisted of 1,376 sub-items and the new system of 2,020 sub-items. Under the BTN, tariffs on 636 items increased when compared to those under the old system. For 369 items the BTN meant lower tariffs, for 650 others it meant no difference while for 373 commodities it is difficult to make a comparison. When the import goods are grouped according to their economic significance, the new system meant higher tariffs on 250 items of consumer goods, 300 items of raw materials and auxiliary inputs and 60 items of capital goods. On the other hand the new system also meant lower tariffs on 200 items of consumer goods (other than the kinds referred to before), 100 items of raw materials and auxiliary inputs and 20 items of capital goods.

Sales tax plays an important role as a source of state income in Indonesia. In 1969/1970 receipts from this tax accounted for 20.7% of the total amount of receipts from indirect taxes and in 1973/1974 the figure was 25.5%. When measured against the total amount of domestic receipts the

contribution made by sales tax in the same years was 12.7% (1969/1970) and 10.9% (1973/1974). Except in the first year of Repelita I (1969/1970) the amount of receipts from sales tax throughout the plan was always in excess of the amount of receipts from excises. Excises are levied on production of tobacco, sugar, beer and other alcoholic beverages. Receipts from sales tax on petroleum sold domestically were entered into the state budget under a separate heading namely "Net Profits from Oil".

During the first two years of Repelita I more than half of the receipts from sales tax consisted of receipts from import sales tax, namely 51% (1969/1970) and 54.6% (1970/1971). But since the third year of the plan the role of domestic sales tax in the total amonut of receipts from sales taxes increased: 51.8% (1971/1972), 55.4% (1972/1973) and 51.9% (1973/1974). The increased percentage of receipts from domestic sales tax was closely related to increased production which resulted from increased investment especially in the industrial sector. In absolute terms the amount of receipts from sales tax on domestically produced goods and services was only half that of receipts from tobacco excises.

Receipts from the oil sector through company tax and net profit tax played an increasingly important role. In 1969/1970 petroleum accounted for 26.9% of the entire amount of domestic receipts and this figure rose to 28.9% (1970/1971), 32.8% (1971/1972), 39% (1972/1973), and 45.2% (1973/1974).

The increase in receipts from oil company taxes resulted from higher production and overseas prices. The crude oil output in 1973 (488.4 billion barrels) was 2.13 times the output in 1969 (270.9 million barrels). The natural gas output in 1973 (177,6 mcfs) was 26.9 times the output in 1969 (61,5 mcfs). An average of 70% of the crude oil output was exported abroad each year. The price of exported crude petroleum in the period October 1973 — June 1974 alone was raised four times in connection with the production cutbacks, embargo and price increases by the Arab oil producing countries.

Receipts from net oil profits were influenced by a mounting domestic consumption of oil, sales price hikes which occurred every year and higher oil production costs. In 1973 the volume of fuel and lubricating oils sold domestically by Pertamina was 1.3 times that of 1969.

Non-tax receipts are domestic receipts that cannot be categorized as taxes. These non-tax receipts originated from such sources as fines, dues, auction proceeds, marriage, divorce and re-marriage administration fees; profits made by state enterprises and government banks and revenues obtained by the various government departments.

The greater part of these non-tax receipts was contributed by the profits made by state enterprises and government banks. Enterprises incorporated as P.N.s (Perusahaan Negara = State Company) remit 55% of their net profits into a Government development fund; enterprises having the status of "persero" (share companies) contribute to this fund at a rate that is determined by the percentage of government-owned shares in the enterprise concerned and the amount of distributed net profits. Pertamina remits 60% of its net operating income into this fund. Thus increased activity of the state enterprises which operated under sounder managements led to greater profit contributions to the Government.

Foreign aid has two functions. First, to cover the difference between the amounts of expenditures and receipts in the state budget and secondly to fill the gap between the need for foreign exchange for the financing of imports and the foreign exchange receipts from exports. Under the Old Order regime the difference between the state's expenditures and receipts was always covered by the printing of new money. Consequently the state budget deficit became the main cause of the runaway inflation that prevailed at the time and reached its peak in 1964 — 1965.

In developing countries including Indonesia the greater part of every addition to the amount of money in circulation is used for transactions purpose. Because the domestic capacity to produce goods and services is still limited most of the

needed goods and services have to be imported. As indicated earlier 22.2% of Indonesia's national income is spent on imports. The inelasticity of production of export goods which in general consisted of agricultural produce and minerals in addition to the fact that international market prices were determined beyond the control of the exporting countries, made foreign exchange a constraining factor in the development process in developing countries.

The amount of foreign aid received by Indonesia continually increased from year to year as follows: (figures on committed aid in US$ millions) 123.71 (1966), 166.70 (1967), 353.66 (1968), 561.86 (1969/1970), 603.94 (1970/1971), 643.36 (1971/1972), 823.34 (1972/1973) and 864.36 (1973/1974). The amount of foreign aid in 1972/1973 was 3.8 times that in 1967. The increase in foreign aid cannot be explained without reference to the results attained through the economic stabilization and development programs which considerably helped to bolster international confidence in Indonesia's intentions to improve her national economy.

The Old Order government also sought to fill the deficits in its state budget and payments balance with foreign loans. The total amount of foreign debts as per June 30, 1966 was US$ 2.050.9 million. The difference between the Old Order government and the New Order government in this respect was that the loans obtained by the former were subject to conditions that were a greater burden to the state budget and payment balance. Through the IGGI the New Order government has re-negotiated the maturing period and other conditions of the old debts and negotiated for new credits from non-communist creditor countries. Bilateral negotiations were held with communist countries to obtain credits on the same conditions as those obtained from the non-communist countries. The Old Order used the foreign aid for non-economic purposes while the New Order has utilized them for domestic economic stabilization and development.

Measured as a percentage of the entire amount of state receipts and of the total development budget foreign aid has played a progressively smaller role from year to year as illustrated by the following table:

PERCENTAGE OF FOREIGN AID AGAINST TOTAL AMOUNT OF RECEIPTS AND AGAINST THE DEVELOPMENT BUDGET

Year	Percentage Foreign Aid/ Total of Receipts	Percentage Foreign Aid/ Development Budget
1969/70	27.2	77.0
1970/71	25.9	66.8
1971/72	24.5	59.7
1972/73	21.0	48.9
1973/74	17.4	45.2

Source: Culled from Bank Indonesia; *"Statistik Ekonomi-Keuangan"*; June 1974, Table 4.a.

It is plain from the table above that the role of foreign aid compared to the total amount of state receipts and the development budget is undergoing a gradual decline. If in the first year of Repelita I more than a quarter (27.2%) of the receipts and more than three-quarters (77%) of the state's development budget depended on foreign aid, in the fifth year less than one-fifth (17.4%) of the state receipts and less than half of the developmental expenditures were financed in this manner aid. This is at the same time a reflection of the growing role being played by domestic receipts in the total amount of government receipts and also of the increasing contribution of government savings to the financing of development.

5.2. GOVERNMENT EXPENDITURE

Government expenditures in the period under review developed in a similar way. The rapid increase in receipts as described above enabled the Government to increase its spendings for routine as well as developmental purposes as can be seen in Table 8.

Compared to 1969/1970 routine expenditures in the fifth year of Repelita I increased 229.4% while the development budget grew by 281.7%. The rate at which the increase in routine expenditures occurred was still lower than the rate at which domestic receipts multiplied in the same period namely by 297.7%.

The fact that domestic receipts increased faster than routine expenditures enabled the Government to increase its savings. In 1969/1970 government savings accounted for only 23% of the development budget, in 1973/1974 this figure had risen to 54.8%. It was evident that the Government was making sincere efforts to reduce the dependence of the development program on foreign aid.

The greater portion of the routine expenditures consisted of payments to employees/pensioners which made up 48.03% of the total amount of routine expenditures in 1969/1970 and 37.8% in 1973/1974. When subsidies to the provinces (which generally were used to pay salaries) are included, the percentage of payments to employees vis-á-vis the total amount of routine expenditures in the same two years would be 67% (1969/1970) and 52.9% (1973/1974).

Expenditures for purchase of goods in 1969/1970 amounted to 23.2% of the total amount of routine expenditures and in 1973/1974 to 15.4%. Expenditures for subsidies to the provinces in 1969/1970 accounted for 20.3% and in 1973/1974 for 15.2%. The percentage of routine expenditures for the payment of debts rose from 6.6% (1969/1970) to 9.9% (1973/1974). After the rescheduling of Indonesia's old foreign debts the percentage of payments of foreign debts vis-á-vis the entire amount of routine expenditures was 5.8% (1969/1970), 8.2% (1970/1971), 11.7% (1971/1972), 10.5% (1972/1973) and 8.9% (1973/1974). Measured as a percentage of the amount of domestic receipts the expenditures for payment of these foreign debts were 5.2% (1969/1970), 6.8% (1970/1971), 9.5% (1971/1972), 7.7% (1972/1973) and 6.5% (1973/1974).

The percentage of expenditures for development carried out by the central government (including the Armed Forces) dropped from 67.5% (1969/1970) to 48.0% (1973/1974). On the other hand the percentage of expenditures for provincial

development, other expenditures especially for Bimas, government participation in and financing of projects continually increased. Compared to the amount in the first year, developmental expenditures by government departments and institutes during the fifth year of Repelita I increased 2.8 times; expenditures by the Armed Forces 1.6 times; expenditures for provincial development 2.9 times; project aid 2.5 times and expenditures for other purposes by 4 times. The absolute amount as well as the percentage of the expenditures for development clearly show that the government was concentrating its attention on economic development while it was also increasingly evident that it sought to decentralize such activities. In addition the amount of budgetary funds appropriated for the private sector grew constantly from year to year.

6. INVESTMENTS IN THE PRIVATE SECTOR

Complete data on the amount of investments in the private sector are not available but there is evidence to show that here too there was expansion. The amount of credits extended to the private sector by the banking system grew rapidly as shown by table 9.

The amount of bank credits increased more than four and a half times in the period 1969 — 1973 as was inevitable given that banks are the main external source of enterprise financing in Indonesia. The development of a money and capital market was still in its initial stage and what was created in this direction remained insignificant as a source of funds to finance enterprises. The state banks (5 commercial banks, 1 development bank and 1 savings bank) constituted the main suppliers of credit while these banks, in turn, depended on credits extended by the Bank Indonesia, the central bank. Direct credits from Bank Indonesia could be obtained only to finance activities aimed at meeting the domestic need for foodstuffs and programs to step up domestic rice production.

Up to and including 1969/1970 the bulk of these bank credits went to the public sector, however, after that time they were increasingly directed to the private sector. This change

was in line with the abandonment of the system of étatism (which prevailed before 1966) in favour of a Pancasila based system of economic democracy in which the market mechanism was allowed to operate. The development of bank credits in the public and private sectors in the period 1968 — 1973 was as follows:

OUTSTANDING CREDITS (in millions of Rp.)

	1968	1969/70 March	1970/71 March	1971/72 March	1972/73 March	1973/74 September*)
To public sector	81.7	127.9	145.1	196.4	223.9	354.5
To private sector	45.1	134.1	235.5	326.1	480.1	586.1
T o t a l	126.8	262.0	380.6	522.5	704.0	940.6

Source: Republic of Indonesia, *"Nota Keuangan dan RAPBN 1973/74"* (Financial Statement and 1973/74 Draft State Budget), page 145.
*) Preliminary figure.

In 1968 65.2% of the total amount of credits went to the public sector and 34.8% to the private sector. In 1970/1971 the private sector took 61.8%, by 1973/1974 (September 1973) 62.3%. This reflects the fact that economic activity was being increasingly left to private enterprise.

A similar picture is obtained when one reviews the development of medium-term investment credits extended by the banks. A program for the provision of medium-term investment credits was started in Repelita I under which the government was to supply capital through the banks for the financing of priority investment projects. Initially these credits were meant to go only to state enterprises but they proved later to have been enjoyed mainly by the private sector in the form of medium-term investment credits.

In the 1967 budget year the amount of government-owned capital participating in economic activity through banks was Rp. 1,617 million; in the 1968 budget year the figure was

Rp. 5,278 million; in 1969 Rp. 1,500 million; in 1969/1970 Rp. 7,582 million; in 1970/1971 Rp. 1,000 million; in 1971/1972 Rp. 7,016 million; in 1972/1973 Rp. 22,543 million and in 1973/1974 Rp. 40,800 million. The amount of government money participating in economic activity through banks in the fifth year of Repelita I had increased to six times[1] the amount in the first year of the plan.

In 1968 the amount of investment credits approved by banks totalled Rp. 269 million. This figure rose to Rp. 27,188 the end of 1969 and multiplied a further five times in four years so that by the end of 1972 it was Rp. 141,359 million. In 1973 the figure was Rp. 162,234 million. The amount utilized by bank clients in 1969 was Rp. 9,182 million and by the end of 1970 this figure had multiplied four times to Rp. 40,439 million. In December 1972 it rose again to Rp. 92,166 million or more than twice the level of December 1970 while by December 1973 it stood at Rp. 111.083 million.

Investment credits were utilized mainly in sectors such as industry, communications and tourism, agriculture etc. as can be seen in the following table:

INVESTMENT CREDITS OUTSTANDING (Millions of Rp.)

	1968	1969	1970	1971	1972	1973
Credit Ceiling	269	27,188	63,944	80,073	141,359	162,329
Credit						
Outstanding	—	9,182	40,439	73,312	92,166	111,083
Agricultural		3,550	11,594	18,335	7,723	8,044
Manufacturing		2,545	15,132	32,944	55,958	59,640
Mining		419	108	109	270	161
Communications & Tourism		2,669	12,958	21,266	26,483	38,501
Other		—	657	648	5,732	4,732

Source: Bank Indonesia, *op. cit.*

1 Bank Indonesia, *op. cit.*

The rate of interest and other conditions attached to investment credits were lower and more lenient than those on other types of credits.

Since the enactment of the Law on Domestic Capital Investments of 1968 which provided for such facilities as import duty and tax reductions for new investments, the amount of private investments increased rapidly.

The Law on Foreign Capital Investments of 1967 which offers investment safeguards and such facilities as import duty and tax reductions, revived foreign investors' interest in Indonesia. The total amount of foreign capital investments approved by the Government up to December 1973 was US$ 2,949,394,338.32. Of this figure approximately 21.19% or US$ 665,465,100.02[1] has actually entered the country and become operative.

The most prominent investor countries are Japan (actual investments as per December 1973: US$ 218,575,094.17) and U.S.A. (actual investments as per December 1973: US$ 191,623,603.28) while the sectors to which these foreign investments were mainly directed were industry, mining and forestry.

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[1] Bank Indonesia, Capital Investment Desk, *"Lampiran Pemberitahuan Instruksi BI kepada Bank-bank Devisa"* (Supplement to Notice on Bank Indonesia Instruction on Foreign Exchange Banks).

TABLE 1

INDONESIA, NATIONAL ACCOUNT, 1966 — 1972 AT CONSTANT 1960 PRICES

	1966	1967	1968[1])	1969	1970	1971*	1972*
Private Consumption							
Total (billion Rp.)	350,8	381,8	416,7	441,2	453,7	475,5	498,5
Per Capita (Rp.)	3.239,2	3.441,8	3.947,3	3.883,8	3.904,5	4.002,5	4.102,5
Percent of GNP	80,1	85,9	84,6	83,8	80,1	78,7	77,3
Public Consumption							
Total (billion Rp.)	40,3	35,8	40,6	42,1	49,2	52,7	52,7
Percent of GNP	9,2	8,1	8,2	8,0	8,7	8,7	8,2
Gross Capital Formation							
Total (billion Rp.)	40,7	33,2	40,6	51,2	69,4	81,0	99,0
Percent of GNP	9,3	7,2	9,9	9,9	12,2	13,4	15,0
Export (billion Rp.)	55,6	55,5	61,3	69,9	82,3	91,7	123,2
Import (billion Rp.)	45,5	58,3	62,3	74,6	83,7	92,0	121,0
Export Surplus (billion Rp.)	10,1	— 3,8	— 1,0	— 4,7	— 1,4	— 0,3	2,2
GNP at market prices							
Total (billion Rp.)	441,9	448,0	496.9	530,8	570,9	608,9	650,9
GNP at 1960 market prices							
Total (billion Rp.)	438,1	444,3	492,7	526,2	566,2	603,9	645,5
Per Capita (Rp.)	4.045,0	4.010,0	4.430,8	4.634,7	4.872,6	5.083,3	5.308,4
Average annual rate of growth	2,7	1,4	10,8	7,8	7,1	6,7	5,2

* Preliminary

Avenage annual rate of growth 1968 — 72 : 5,5%
Average annual rate of growth 1968 — 72 : 6,3%

1) The figures of national income of 1968 — 72 could not be compared with those of the previous years because of some revisions of the data resources and method of calculation in some particular sectors taken place since 1968.

TABLE 2

GROSS DOMESTIC PRODUCT AT 1960 PRICES BY INDUSTRIAL ORIGIN (billion Rp.)

	1966	1967	1968	1969	1970	1971	1972
1. Agriculture	236,1	232,1	255,2	260,1	270,7	280,5	285,5
Percent of GDP	53,4	51,8	51,3	49,0	49,4	46,1	43,9
2. Mining	15,4	16,1	22,0	29,9	32,2	34,0	40,7
Percent of GDP	3,5	3,9	4,0	5,2	5,6	5,6	6,2
3. Manufacturing	36,3	37,5	40,8	46,6	51,1	56,9	60,8
Percent of GDP	8,2	8,4	8,2	8,8	9,0	9,3	9,3
4. Construction	8,4	7,3	9,2	12,1	15,2	17,1	21,2
Percent of GDP	1,9	1,6	1,9	2,3	2,7	2,8	3,3
5. Electricity and Gas	1,7	2,2	2,3	2,6	3,0	3,3	3,3
Percent of GDP	0,4	0,5	0,5	0,5	0,5	0,5	0,5
6. Transport & Communication	15,2	15,7	15,9	16,5	17,4	22,1	22,4
Percent of GDP	3,4	3,5	3,2	3,1	3,0	3,6	3,4
7. Trade	64,5	70,8	78,8	88,8	100,0	108,5	126,9
Percent of GDP	14,6	14,6	15,8	15,8	17,6	17,5	19,5
8. Banking	3,4	3,4	4,0	6,6	8,6	11,3	12,9
Percent of GDP	0,8	0,7	0,8	1,2	1,5	1,9	2,0
9. Ownership of Dwellings	8,7	8,8	9,7	10,4	11,3	11,9	12,8
Prcent of GDP	2,0	2,0	2,0	2,0	2,0	3,0	2,0
10. Public Adm. & Defence	24,3	25,0	28,8	29,3	30,4	31,8	31,8
Percent df GDP	5,5	5,6	5,8	5,5	5,3	5,2	4,9
11. Services	27,9	28,8	29,9	70,1	30,9	31,7	32,5
Percent of GDP	6,3	6,4	5,9	5,7	5,4	5,2	5,0
12. GDP at market prices	441,9	448,3	496,9	530,8	570,9	608,9	650,8
Percent of GDP	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: Central Bureau of Statistics.

TABLE 3

DOMESTIC SAVINGS, 1966 — 1972 (billion Rp. current prices)

Year	Gross Capital Formation	Foreign Capital Inflow[1]	GNP	Domestic Savings (1) minus (2)	Gross Capital Domestic (% of GNP)	Saving (% of GNP)
	1	2	3	4	5	6
1966	14,3	+ 24,5	311	— 15,2	46	— 4.9
1967	67,9	+ 68,6	838,2	— 0,7	8.1	— 0.08
1968	184,6	+ 98,7	2.067,9	85,9	9.9	4.09
1969	317,3	+157,4	2.683,4	159,9	11.8	5.96
1970	454,6	+100,2	3.289,9	454,4	13.8	13.81
1971[2]	579,9	+100	3.726,8	479,9	15.5	12.87
1972	790,6	+104,5	4.407,2	586,1	17.9	13.30

1) + net inflow
— net outflow

2) preliminary

TABLE 4

INDONESIA'S BALANCE OF PAYMENTS (million US$)

	1966	1967	1968	1969	1970	1971	1972[1]
A. *Goods and Services* (net)	— *196*	— *320*	— *283*	— *416*	— *410*	— *430*	— *436*
Exports, (fob)	714	770	+ 872	995	1.173	1.307	1.757
Import, (fob)	— 604	— 805	— 831	— 995	—1.116	—1.226	—1.445
Services	— 286	— 285	— 382	— 416	— 476	— 511	— 124
B. *Special Drawing Rights*	—	—	—	—	*35*	*28*	*30*
C. *Private Capital* (net)	*50*	*100*	*45*	*64*	*103*	*156*	+ *427*
D. *Official transfer and Capital*	*124*	*241*	*234*	*282*	*313*	*284*	+ *343*
Loans and Grants (net)[2]	44	201	85	164	224	178	246
PL — 480	35	31	'129	111	113	112	97
Others	45	9	20	9	— 28	— 6	—
E. Total A through D	— 2	21	8	— 70	41	38	364
F. Error and Omissions	— 9	30	— 4	— 50	— 31	— 52	+ 57
G. Monetary Movements	11	23	—	+ 20	—3.810	+ 14	— 421

Source: Bank Indonesia; *op cit.*

1 Revisions due change in the basis of import compilation from letter of credit opened to record of documents issued by banks to importers prior to clearance of goods (KPP).

2 net included oil debt (Shell).

TABLE 5

IMPORTS BY ECONOMIC GROUPS (in million US$)

Year	Consumption Goods	Raw Materials	Capital Goods	Total
1966	224,7	180,3	121,7	526,7
1967	232,5	237,7	179,0	649,2
1968	266,5	251,8	189,6	715,8
1969	220,9	320,8	238,8	780,7
1970	249,5	376,5	373,9	1.001,5
1971	210,2	428,0	464,6	1.302,8
1972*	232,2	575,6	650,3	1.458,1
1973*	316,4	896,0	1.043,6	2.256,0

Source: Central Bureau of Statistics, Monthly Statistical Bulletin, May 1974.

* Preliminary.

TABLE 6

RESUME OF ACTUAL GOVERNMENT RECEIPTS AND EXPENDITURES (billions of Rupiah)

Year	Receipts		Total	Expenditures		Total	Government Savings	Surplus (+) Deficit (—)
	Routine	Development		Routine	Development			
1966		13.14	13.14		29.43	29.43	—	—16.59
1967		84.90	84.90		87.55	87.55	—	— 2.65
1968	149.74	35.54	185.28	149.74	35.54	185.28	0	0
1969/1970	243.71	91.06	—344.77	—826.55	118.13	— 334.68	27.16	0.09
1970/1971	344.40	120.53	465.13	288.17	169.93	457.93	56.43	7.20
1971/1972	428.02	131.10	554.13	349.09	191.48	540.57	78.93	18.55
1972/1973	590.61	157.80	746.41	438.10	298.22	736.32	159.51	12.09
1973/1974	967.69	203.99	1,171.68	713.30	450.96	—1,164.26	254.39	7.42

Source: Central Bureau of Statisttcs, *Indikator Ekonomi* (Economic Indicator), May, 1974, pp. 68 - 73.

TABLE 7

GOVERNMENT ACTUAL RECEIPTS (Millions of Rupiah)

	1966	1967	1968	1969 I	1969/70	1970/71	1971/72	1972/73	1973/74
Direct taxes	1,790	16,818	51,034	19.468	91,468	121,617	180,989	302,229	504,974
Indirect taxes	10,531	42,096	93,964	25,806	149,069	209,876	216,538	253,770	412,949
Non Tax Receipts	821	1,299	4,748	288	3,167	13,113	27,494	34,609	49,764
Total Domestic	13,142	60,211	149,746	45,924	243,704	344,606	428,021	590,608	967,687
Program loans	——	24,689	35,537	12,862	65,761	78,951	90,527	95,500	89,869
Project loans	——	——	——	——	25,297	41,580	45,000	62,300	114,125
Total foreign		24,689	35,537	12,862	91,058	120,531	135,527	157,800	203,994
Grand total	13,142	84,900	185,283	58,786	334,762	465,137	563,548	748,408	1,171,681

Source: Bank Indonesia, *"Statistik Ekonomi-Keuangan Indonesia"* (Financial-economic Statistics on Indonesia), December 1972 and June 1974.

TABLE 8

GOVERNMENT ACTUAL PAYMENTS (in millions of Rp.)

	1966	1967	1698	1969 — I	1969/70	1970/71	1971/72	1972/73	1973/74
Routine Budget	25,695	70,023	149,746	45,924	216,544	288,177	349,095	438,100	713,302
Personnel Expenditures	14,134	31,626	68,926	22,196	103,840	131,437	163,340	200,379	268,862
Material Expenditures	7,939	20,349	38,476	14,177	50,295	62,567	67,125	95,421	110.140
Subsidies to provinces	1,880	8,881	25,540	7,957	44,121	56,166	66,800	83,900	108,600
Debt repayment	454	3,721	9,978	1,594	14,436	25,600	46,600	53,400	70,700
Other Expenditures	1,279	5,446	6,826	——	3,852	12,407	5,230	5,000	155,000
Development Budget	3,738	17,532	35,537	12,919	118,127	169,752	195,900	298,224	450,958
Departments/ Institution	——	——	——	——	75,474	78,469	97,562	144,043	210,255
Armed Forces	——	11,738	28,943	9,219	4,264	4,500	5,000	6,000	7,255
Regional Development	3,738	——	2,000	2,600	5,510	32,681	37,247	57,800	68,501
Other	——	3,457	6,595	1,500	7,582	12,522	11,093	28,081	50,850
Project Aid	——	——	——	——	25,297	41,580	45,000	62,300	114,125
T o t a l	29.433	87.555	185,283	58,643	344,671	457,929	544,995	736,324	1,164,258

Source: Bank Indonesia, ibid., hal. 78 - 79.

TABLE 9

TOTAL OUTSTANDING BANK CREDITS (in millions of Rp.)

	1966	1967	1968	1969	1970	1971	1972	1973
Bank Indonesia[1])	1,573	12,090	61,848	87,384	96,771	103,743	127,305	154,631
Other Government Banks	3,654	14,291	56,219	137,370	232,872	343,140	460,684	939,818
Private Banks	1,184	4,814	7,616	17,157	24,504	32,752	43,560	67,110
Foreign Banks	——	——	1,072	2,400	8,205	15,728	26,143	57,336
T o t a l	6,342	31,195	126,755	224,311	362,352	495,363	657,602	1,012,895

Source: Bank Indonesia; *op. cit:*

1) Excluding credits to other banks.

THE FUNCTION OF A STANDARD DICTIONARY IN THE DEVELOPMENT OF INDONESIAN

Harimurti KRIDALAKSANA

When some time ago the idea of compiling a Standard Indonesian Dictionary was launched, many people remarked, "Why, yes, we still do not have such a dictionary, whereas the Dutch have their Van Dale, the Americans their Webster, the British their Oxford and the French their Larousse!" This spontaneous reaction has made us aware of the fact that though we possess a national language that we like to boast about, so far we have actually failed to do many things that we should have done to cultivate it.

The idea of a Standard Indonesian Dictionary compels us to think about and assess our capability to compile it and the function it has to fulfil in our efforts to stabilize and propagate the Indonesian language.

THE DICTIONARY IN LANGUAGE DEVELOPMENT

Although world languages generally have a standard dictionary, it does not necessarily follow that Indonesian must have one also, if the dictionary is not to fulfil any function. The effort required to compile it would be utterly in vain if we fail to understand its function.

The standardization of language is in point of fact nothing else but efforts to stabilize it in such a way that it continues to function as an effective means of communication. Just as the society using the language changes constantly in accordance

with new needs and conditions, so does language. Language standardization efforts will surely be ineffectual if they are aimed at preventing language from undergoing changes. Standardization of language is done to see to it that the language remains alive and useful as a means of social communication.

The compilation of a dictionary is part of the codification of language, which itself is part of language standardization; a standard dictionary is a record of all the richness of language, drawn up in the form of a list of words clarified in all their nuances of meaning. The nuances of meaning of the words are not explained only by definitions, descriptions, examples, synonyms or paraphrases but also by indications of the words' currency (e.g. by stating in which sphere of life a given word is used (label of register); in which part of the country or by which social group a certain word is used and in what sense (label of regional dialect or social dialect); or whether or not a word is still in use; if a word is no longer used, where it was ever used (label of temporal dialect)[1]; and by etymology, which explains the development of the form and meaning of words since they became current be they indigenous or borrowed from another language[2].

The substantiality of a standard dictionary is not measured by the number of words it contains but by the width of the spheres of life it covers. The wider these spheres are, the more words, meanings of words and nuances of meaning it will contain.

A standard dictionary also constitutes a record of a nation's present and past cultural assets; it goes without

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1 Linguistics discovers that rather than a uniform system, language consists of varieties. The variety as seen from the point of language use is called *register*; the variety as seen from the point of the people who use it is called *dialect;* of which *social dialect* and *regional dialect* can be differentiated. Language also evolves from time to time; each stage of its history is called *temporal dialect*.

2 It should be pointed out that etymology in a standard dictionary serves to help clarify the meaning and shades of meaning of words as they developed in the history of the language. This supporting function does not exist in etymological dictionaries which list and explain the form and meaning for the sake of that form and meaning alone, in order among other things to help explain the development of culture.

saying that such a dictionary also serves as a showpiece of the nation concerned.

Such a dictionary is the result of decades of research and recording; and because a living language is for ever subject to changes resulting from the growth or disappearance of words, word meanings or nuances of word meaning, the dictionary needs periodic revision, for instance once every ten years. It is only natural that the compilation and publication of a standard dictionary cannot be undertaken as an occasional project but as a routine activity that continues as long as the language is being spoken.

A standard dictionary functions as a source dictionary, and it serves as the basis for the compilation of dictionaries for more limited purposes e.g. school dictionaries, general dictionaries, dictionaries of synonyms and antonyms, abridged dictionaries etc. In other words, the existence of a standard dictionary will enable the compilation of other kinds of dictionaries in a more correct and precise, i.e. easier, way, as the standard dictionary has been compiled on the basis of pure research.

A standard dictionary is usually monolingual, which means that the explanations are given in the same language. Usually a standard dictionary also serves as the basis for the compilation of bilingual dictionaries. A bilingual dictionary does not explain words by definitions but by giving their equivalents in another language.

A standard dictionary covering as wide a range of spheres of life as meant above obviously has to be descriptive. Other kinds of dictionaries, i.e. those covering a more limited range of spheres of life and serving limited purposes, on the other hand, may well be normative.

Two kinds of reference works differing in nature and purpose from a standard dictionary must be mentioned here, namely the encyclopaedic dictionary and the thesaurus.

An encyclopaedic dictionary differs slightly from other kinds of dictionaries in that it also contains people's names, a gazetteer, titles of artistic, scientific, literary works etc. apart from explaining the meaning of words; also in

explaining the meaning of words it does not only use definitions but also detailed descriptions on the manner in which the object concerned is manufactured, its origin and pictures. In short an encyclopaedic dictionary is a mixture of a dictionary and an encyclopaedia[3].

A thesaurus differs from a dictionary in that it does not explain words in alphabetical order: the words are listed in clusters of hyponyms, synonyms and antonyms. Hyponyms (words whose meaning overlap) are grouped with their superordinated as headwords; sets of synonyms bear one of the words as headword, whereas antonyms are listed with one of the opposite words as headword. A thesaurus is always monolingual and does not contain definitions[4].

Must the compilation of a standard dictionary always precede the publication of dictionaries for more limited purpuses ? Such procedure is not compulsory: standard dictionaries have been produced irrespective of efforts to produce dictionaries for limited purposes; other standard dictionaries were compiled after the publication of smaller dictionaries. Nevertheless, in Indonesia there is actually a need to organize the production of these two kinds of dictionaries in a certain order. Through cooperation among experts in various fields a standard dictionary can be compiled that covers as many aspects and nuances of the meaning of words in the Indonesian language known in all spheres of life as possible. Being the result of very thorough studies conducted over a period of years the standard dictionary would be marked by accuracy, authoritativeness and consistency not to be found in smaller dictionaries. The state of neglect into which the maintenance Indonesian has fallen is the reason that this country does not possess any professional lexicographer who is capable of single-handedly compiling a standard dictionary meeting the above mentioned requirements. A lexicological and lexicographic tradition has yet to be established; the diction-

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3 Should a standard dictionary be encyclopaedic? There is no definite answer to this question, as it depends on the needs, demands and resources of the society.

4 There are thesauri that take the form of a dictionary: groups of meanings or sets of concepts are listed in alphabetical order in the same way as entry words in a dictionary.

aries that have been published thus far are generally the work of amateurs; their contents are based more on the assumptions and intuitions of the authors rather than on thorough research. Therefore, for the sake of the efficient use of energy, time and funds, the best thing to do is to mobilize all lexicographers for the task of compiling a standard dictionary and only thereafter should these potentials be set to work for the production of dictionarles of more limited purposes.

Another feature of a standard dictionary is the research on which its compilation is based. The value of a standard dictionary does not lie in the number of words it contains nor in its typographic appearance but in the extent to which the explanations given are documented with material on the entire background of the words concerned, for instance, where and in what context a certain word is used, when it was used for the first time, how its meaning and nuances of meaning developed etc. In short, the quality of a lexicographic work is determined solely by the depth and width of the lexicological research on which it is based.

TRADITION OF DICTIONARY-MAKING IN INDONESIA

Being a young nation with an equally young language we actually need not be too ashamed that we still lack a standard dictionary such as other more developed nations possess.

The business of compiling and publishing dictionaries is a long process consisting of several phases. Each phase represents the accumulation of the results of research and analysis of the language as it was used and of the practical value of the dictionaries published in the preceding phase. In the publication of every dictionary a premium is put on accuracy in recording the language and on utmost perfection in its composition. Still, no dictionary is actually free of some subjective touch arising from either the editor's adherence to a certain "linguistic ideology" or his effort to adjust his work to public taste. A few examples are cited before reviewing the situation of dictionary-making in Indonesia.

Samuel Johnson, the father of British lexicography and editor of *Dictionary of the English Language* (1755), stated

that the function of dictionaries is to maintain the purity of language. The same view was held by Noah Webster, the fatner of American lexicography and editor of *An American Dictionary of the English Language* (1828) -- the real parent of the long line of dictionaries which bear his name.

The normative "linguistic ideology" of Johnson and Webster is in contradiction with the views underlying such modern dictionaries as *A New English Dictionary on Historical Principles* (1934) — better known as the Oxford Dictionary — and *Webster's Third New International Dietionary* (1961) which strive accurately to record and interpret language as it is used without prescribing what is wrong and what is correct.

The tradition of dictionary-making in those developed countries was as a matter of fact begun with the compilation and publication of standard and monolingual dictionaries, which became the basis for dictionaries of more limited purposes such as the *Shorter Oxford Dietionary, Webster's New Collegiate Dictionary, Van Dale Handwoordenboek* (based on the standard work *Van Dale Grootwoordenboek der Nederlandse Taal), Petit Larousse* (based on *Grand Larousse)* etc.; also on the basis of the standard dictionaries bilingual dictionaries are compiled.

Dictionary-making in Indonesia took a different course. The history of Indonesian lexicography started with glossaries followed by bilingual dictionaries and later by monolingual dictionaries. The oldest known lexicographic work in the history of Indonesian linguistic studies is a glossary of Chinese-Malay words from the 15th century which contains 500 entries. Another early lexicographic work is an Italian-Malay glossary by Pigafetta (1522). The oldest known dictionary in the history of Indonesian languages are *Spraeek ende woord-boeek, Inde Maleysehe ende Madagaskarsehe Talen met vele Arabisehe ende Turesehe woordcn* (1603) by Frederick de Houtman, and *Vocabularium ofte Woortboeek naer ordre vanden Alphabet in't Duytsch-Maleyseh ende Maleyseh-Duytseh* (1623) by Caspar Wiltens and Sebastianus Danckaerts.. These Malay dictionaries are definitely older than *Lexieon Javanieum (1706),* an anonymous work, the text of which is kept in the library of

the Vatican and regarded as the oldest Javanese dictionary. Those works are definitely older than the oldest dictionary of the Sundanese language entitled *Nederduitsch-Maleisch en Soendasch Woordenboek* (1841) by A. de Wilde.

These glossaries and multi- and bilingual dictionaries were followed by more glossaries and dictionaries of varying size[5].

Interest in language and dictionary-making during those colonial times was limited to foreigners, so that the dictionaries that came into being were generally bilingual (foreign-Indonesian or Indonesian-foreign; by "Indonesian" here is meant either Malay, Javanese, Balinese, Sundanese, or Makasarese etc. and not Bahasa Indonesia). The only noteworthy exception was the Malay-Javanese dictionary *Baoesastra Melaju-Djawa* (1916) by Sasrasoeganda — the first bilingual dictionary compiled by an Indonesian.

The first monolingual dictionary compiled by an Indonesian was *Kitab Pengetahuan Bahasa yaitu Kamus Loghat Melayu-Johor-Pahang-Riau-Lingga penggal yang pertama* by Raja Ali Haji of Riau. The year 1345 Hijrah (= 1928 A.D.) is mentioned in the work printed by Al Ahmadiah Press Singapore. As Raja Ali Haji lived during the first half of the 19th century, it can be assumed that the work was already in circulation — at least in the form of a text — during the 19th century, as was his textbook on spelling and grammer *Bustanulkatibina* (printed in 1273 H or 1857 A.D.). Viewed from the standpoint of present-day lexicographic techniques, *Kitab Pengetahuan Bahasa I* by Raja Ali Haji may be called an encyclopaedic dictionary for school students, rather than a dictionary in a pure sense.

In a later period the *Baoesastra Djawa* (1930) by W.J.S. Poerwadarminta, C.S. Hardjasoedarma and J.C. Poedjasoedira can be regarded as being the first monolingual Javanese dictionary. The same can be said of *Kamoes Basa Soenda* (1948) by R. Satjadibrata for Sundanese.

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[5] These multi- or bilingual glossaries at the beginning had a lexicographic function. The appearance of the dictionary eliminated this function. Now glossaries are considered only as being preliminary data on language obtained by using blank forms such as the Holle List and the Swadesh List, or as aid in language learning.

A few monolingual Indonesian dictionaries were published; the most important one was, of course, *Kamus Umum Bahasa Indonesia* (1957) by W.J.S. Poerwadarminta. This dictionary was compiled on the basis of authentic material, was well-documented and free from prescriptive bias. Technical terms used only in restricted fields of life were not included, which was why the dictionary was called a *general dictionary*. Because of its high lexicographic quality, this work is likely to be used as a basis for all Indonesian dictionaries in the future. Yet there is an urgent need to make improvements and revisions on this dictionary, not only because its contents is beginning to become out of date but also because its fourth edition (1966) is full of misprints that are highly misleading. It should be noted that the *Kamus Umum* or *Kamus Poerwadarminta* is neither a standard dictionary nor a source dictionary as meant in this article.

PROBLEMS IN THE COMPILATION OF A STANDARD DICTIONARY

As pointed out above, the compilation of a standard dictionary is not a part-time job but one involving continual effort and requiring accurate, thorough and time-consuming research. This means it needs the employment of fully qualified scholars and substantial funds.

On experts: now, more than ever before, it is being realized how short we are of experts on the Indonesian language who can be entrusted with the implemention of basic projects to develop the Indonesian language. This shortage has been caused not only by the fact that we neglected the maintenance of our language in the past but also because our universities have never devised their programs with a view on filling the need for the development of the national language. Particularly in relation to dictionary-making, for instance, none of the existing faculties of letters offers a program for instruction in lexicology and lexicography. Dictionary-making is left to people without adequate linguistic training or to people whose hobby is compiling glossaries and translating foreign dictionaries — those

who are not prepared to conduct the basic research that must precede the compilation of a dictionary.

Furthermore, the funds available for linguistic research are so meagre that they can never lead to significant results in the field of dictionary-making. Taking into account the weight and width of the efforts involved in the production of dictionaries, it appears that compilation of a standard dictionary should be done by a strong team within a permanent agency.

Development of the Indonesian language at present actually being still in a rehabilitative stage, the following dictionary-making activities seem feasible:

1. filling the shortage of experts in lexicography by organizing courses and training programs in this field;
2. conducting research that will support a standard dictionary on:
   a. the vocabulary of all the varieties of the language, of the various social and regional dialects as well as of those current in different fields of life;
   b. the origin and history of words (etymology).
3. instituting a system of lexicological documentation.

Only after they have been implemented, should a beginning be made with preparations for the compilation of a standard dictionary.

It is the firm conviction of this writer that without the above mentioned basic efforts the idea of having a standard Indonesian dictionary will remain just a fictitious idea.

CHRONICLE

AUGUST

INTERNAL AFFAIRS

On the eve of August 1, Minister of Information Mashuri delivered a government announcement concerning the impending trial of Hariman Siregar which stated that both this and subsequent trials represented a legal and constitutive approach to the settlement of the January 15 Affair. The trial is the realisation of the governments effort to assure the people that it is determined to maintain order and justice.

On August 1 the trial of Hariman commenced in the Central Jakarta Court under the chairmanship of judge Hungudidjojo. After hearing the charges read by Prosecutor P.H. Rompas against Hariman, who is ex-chairman of the University Indonesia Student Council, the court was postponed until August 12. The defence council consists of a team of Suardi Tasrif, Nursewan, Djamaludin Datuk Singomangkuto and Talas Sianturi.

On August 1 the Indonesian Minister of Justice visited President Soeharto to present a report on the Law of the Sea Conference which was recently held in Caracas, Venezuela. At this Conference 46 countries expressed their support for Wawasan Nusantara while 10 countries remained in opposition.

On August 2 the Commander of the Second Regional Command, Lieut. Gen. Widodo, held a meeting with 63 university Rectors from state and private institutions. A further meeting was held between Lieut. Gen. Widodo and student councils on the same day. An exchange of views with the universities is felt of particular interest given the mission of these institutions to raise candidates for future national leadership. It was stated that these meetings were in no way related to the court session on Hariman Siregar.

Governor Ali Sadikin announced that during the second Pelita 4,000 city buses in addition to taxicabs and minicars

were expected to meet the demands for public transportation in Jakarta. The Governor added that some 2,000,000 persons require such transportation daily.

On August 3 the Chief of Staff of KOPKAMTIB, Admiral Soedomo, announced that an illegal PKI movement operating within a tactical chain between Ngawi (East Java), Kendal (Central Java) and Jakarta had been uncovered. Communist remnants had committed robberies in their attempt to collect funds for the movement.

On August 3 Major General L.B. Murdani was appointed Chief of the G-1 of the Defence and Security Department.

On August 6 a plenary cabinet meeting was held to discuss the monetary situation, the balance of trade and Mr. Adam Malik's mission to the socialist countries.

On August 7 President Soeharto left the capital for Sumatra to begin a two day visit to the regions which will include the inauguration of a new market and fertilizer factory in Bukitinggi and Palembang respectively.

On August 10 Attorney General Ali Said while taking the oaths of the new Deputy Attorney General for Operation Affairs and the new Deputy for General Supervision announced that the two serious issues of illegal Chinese immigration into Indonesia and the manipulation of foreign and domestic capital investment facilities were now both under thorough investigation.

On August 15 President Soeharto delivered the annual Address of State in the House of Representatives. In this introduction President Soeharto touched upon the urgency of national planning. He further analysed important fields in the life of the nation especially the desire for stability and development which represent two key factors for national development. The President emphasized that such stability is to be maintained on the basis of Pancasila and the 1945 Constitution.

August 17 was the 29th anniversary of the proclamation of independence.

The restored Gedung Juang 45, which was the headquarters of youth activities at the time of the proclamation of independence, was inaugurated by President Soeharto. On this occasion

the President stressed that the restoration would assist the nation in preserving national identity, national pride and national spirit. He further emphasized that there should be no gap between generations.

On August 21 the East Java province received the Pelita Award. President Soeharto himself left for Surabaya to hand over the Parasamya Purnakarya Nugraha which is the highest award given by the state for the leading contribution by a province towards the success of the first Five-Year Plan. However, the President emphasized that despite past achievements there was no room for complacency in realizing overall development.

On August 26 the Minister for Regulating State Apparatus, Sumarlin, exposed the draft law on civil servants in the House of Representatives which will be debated in the House in the near future.

FOREIGN RELATIONS

On August 1 informal talks were held between the Indonesian Minister for Defence and Security, General Panggabean and the New Zealand Minister for Defence, A.J. Faulkner.

On August 2 President Soeharto received the credentials of the ambassadors of the Republic of Lebanon and the Republic of Austria. The President also met with the Burmese Minister for Mines, Dr. Nyi Nyi.

On August 4 the Philippines Minister of Trade arrived in Jakarta to attend the second meeting of the Indonesia-Philippines Joint Economic and Technical Commission. The meeting was planned to specifically discuss the problem of the border trade agreement especially in Sangir-Talaud and Northern Kalimantan.

On August 6, Indian Foreign Minister Sardar Swaran Singh arrived in Jakarta for the annual Indonesia - India consultation. In a joint communique with Indonesian Foreign Minister Adam Malik the two foreign ministers stated that they were very much concerned by the continued failure of the Indian Ocean to attain the status of a zone of peace.

On the occasion of the seventh anniversary of ASEAN Mr. Adam Malik in a television address stated that ASEAN had secured some concrete achievements and that at the present time the current energy problem ought to become the main concern for the ASEAN countries. He further added that while ASEAN is a regionalism based on economic and cultural cooperation the member countries had always fostered consultation of political matters.

On August 8 Long Boret, the Prime Minister of Khmer, arrived in Jakarta for a two day visit which included a meeting with President Soeharto on August 10.

On August 10 a letter from US President Gerald Ford was conveyed to the President through State Secretary Soedharmono. In his letter President Ford stated that Indonesia had a very important role in Southeast Asia and that further both Indonesia and the United States shared the same mission of establishing peace in the region. President Ford added that there would be no changes in the United States foreign policy towards Indonesia.

On August 11 President Soeharto received Abderrahim Bouabid, personal envoy of the Sultan of Marocco, who explained the Maroccan claim to the regions of the Sahara still occupied by Spain. Indonesia declared her support for the Maroccan position.

On August 26, President Soeharto accompanied by Madam Tien Soeharto, Foreign Minister Adam Malik and party left Jakarta for a three day visit to Burma on the invitation of the Burmese President U Ne Win. The two heads of state in a joint communique stated that neutralisation of the Southeast Asian region had still not been fully realised as this required that all foreign intervention had to be removed from the region. In addition to declaring greater future cooperation between the two countries the problems of the energy and food crises and monetary inflation were also discussed.

On August 29 President Soeharto and party left Rangoon for the first state visit by an Indonesian President to Singapore. In his address President Soeharto emphasized that the development of new international relations was an imperative for the present era.

Also on August 29 Foreign Minister Adam Malik and Singapore Foreign Minister Rajaratnam signed a basic agreement on economic and technical cooperation between the two countries. Discussions on Wawasan Nusantara, ASEAN regionalism, Indo China and the People's Republic of China were held between the Indonesian and Singapore heads of state before President Soeharto and party left Singapore for Jakarta on August 31.

SEPTEMBER

INTERNAL AFFAIRS

The 1974 Semarang Fair which is designed to foster industrial development in the region was officially opened in the provincial capital of Central Java.

On September 2 Minister of Industry, M. Jusuf, on behalf of President Soeharto, presented the Parasamya Purnakarya Nugraha for the best development achieved by an Indonesian city during the first Five-Year Plan to Ujung Pandang, South Sulawesi.

Admiral Soedomo, the Chief of Staff of KOPKAMTIB, arrived at Ambon on September 3 to conduct a tour of inspection through the Moluccas which will include a two day visit to the Island of Buru.

On September 5 President Soeharto left the capital for Central Java where he welcomed the Australian Prime Minister, Gough Whitlam on his arrival to Indonesia. Informal meetings and discussions were held between the two heads of state, first in Yogyakarta on September 6, then after a tour of Borobudur which began on the same day, a second round of talks were held in Wonosobo where the party stayed.

On September 7 the Australian Prime Minister returned to Yogyakarta then proceeded to Bali where the Malaysian Prime Minister Tun Abdul Razak had arrived on the same day.

Informal talks were held between the Malaysian and Australian Prime Ministers.

On September 9, President Soeharto left Central Java for Surabaya to meet the Malaysian Prime Minister. Later on the same day the party visited Pandaan where President Soeharto opened the second National Stock Show and Contest.

Meanwhile on September 9 a seminar on Domestic Satellite Communication systems was opened in Jakarta at which 27 working papers were discussed.

On September 10 a session of the Council for Political Stabilisation and National Security was led by President Soeharto. The President's visit to Burma and Singapore together with his meetings with the Australian and Malaysian Prime Ministers and the subject of regional resilience, foreign policy and security were among the items discussed.

In a ceremony that took place in the Merdeka Palace on September 11, President Soeharto installed three new Indonesian ambassadors, Mr. Zainal Abidin Usman for the Arab Republic of Syria, Gusti Rusli Noor for the Kingdom of Denmark and Admiral Soebono for the United Kingdom.

On September 13 Foreign Minister Adam Malik left for New York to head the Indonesian delegation to the UN General Assembly.

On September 17 the Council for Economic Stabilisation held a meeting at which the current monetary situation was discussed.

On September 23 Finance Minister Ali Wardhana left for Washington to attend the IMF annual meeting.

On September 24 Commission II of the House of Representatives held a meeting with State Minister Sumarlin to discuss the draft law on civil servants.

President Soeharto presented a sum of Rp. 170 million to the Bandung Institute of Technology for the reparation of the laboratory which was recently destroyed by fire.

On September 26 a limited meeting of the Armed Forces Leaders was held in Jakarta. On the previous day General

Panggabean announced that President Soenarto had given basic guidelines for the development of national defence and security emphasizing the three principles of integration, priority and continuity.

On September 30 Foreign Minister Adam Malik returned to Jakarta after attending the UN General Assembly. In his address to the Assembly Mr. Malik emphasized that the developing countries were going to face grave problems including food shortages, population explosions, unemployment and technological underdevelopment all of which would constitute an increase in the level of world poverty. Other topics also touched upon were ASEAN, the international law of the sea, Khmer and Korea.

FOREIGN RELATIONS

Indonesia participated in the Asian Games which were held in Teheran

On September 1 a Dutch Parliamentary Mission led by Dr. Ir. A. Vondeling was received by Vice President Hamengku Buwono.

On the same day, Mr. Shigeasaburo Maeo, speaker of the Japanese Parliament, arrived in Indonesia for a short visit.

On September 2 President Soeharto received a courtesy call from the Dutch Parliamentary Mission and a visit from William J. Casey, the Director of the US Export-Import Bank.

On September 3, President Soeharto opened the East Asian Insurance Assembly in Jakarta.

From September 3 to 7 the Foreign Minister of Papua New Guinea, Maori Kiki, visited Irian Jaya.

A meeting between Malaysian journalists and the Central Executive of the Indonesian Journalist Association was held in Jakarta to discuss the possibility of founding an ASEAN Journalists Association.

A delegation from the Republic of Vietnam led by Ambassador Bui Diem arrived in Jakarta and on September 10 held talks with Foreign Minister Adam Malik.

On September 11 Indonesian naval vessels under the command of Col. J.H. Salu arrived in Singapore to begin the first joint exercises with the Singapore Navy.

On September 21 it was reported that Foreign Minister Adam Malik held talks with Mr. Mario Soares, the Foreign Minister of Portugal. The Department of Foreign Affairs disclosed that the two representatives were discussing the problem of decolonisation.

On September 30 the Secretary General of the House of Representatives, Mr. Mudjono, left for Tokyo to attend a meeting of the World Association of Parliamentary Secretary Generals. This was the first time Indonesia had attended as a member.

OCTOBER

INTERNAL AFFAIRS

On October 1 the Chief of the State Intelligence Coordinating Body (BAKIN), Lieut. General Yoga Sugama, told the press that the Indonesian security situation was normal. He further stated that what is of importance is to help the people and not let them suffer from shortages for under such conditions peace results automatically.

The Chief of the Geological Survey Directorate of the Atomic Energy Agency announced that a joint Indonesian - French team which has been conducting a survey of nuclear mineral reserves in West Kalimantan since 1969 has discovered uranium deposits of high quality in the Kalan area, sub-district of Nanggapino, Sintang, West Kalimantan.

On October 1, the Shahanshah Mohammad Reza Pahlevi Aryamehr and the Shahbanou Farah Pahlevi of Iran arrived in Jakarta, and were given a full ceremonial welcome. This was the first state visit of the Shahanshah of Iran to Indonesia. An Indo-Iranian summit was held on October 2, and a joint communique was issued at the end of the meeting.

On October 2 Minister of Justice Prof. Dr. Mochtar Kusumaatmadja told the press that he observed increasing positive attitudes of the neighbouring countries in the recent Sea Law Conference in Caracas, especially with regard to the Wawasan Nusantara.

On October 3, the Chief of Staff of the KOPKAMTIB announced that the KOPKAMTIB will always welcome public views and suggestions and will pass them to the Government. He stated that public views need not be similar to those of the government, because differences in views might be useful for mutual correction. 'We are not disturbed by differences of views', Admiral Soedomo said, 'but we are very much concerned with the manner in which the views are presented'.

In commemorating the Armed Forces Day on October 6, President Soeharto stressed that this year and the following years were periods of transition. In these periods the transfer of the 45 values or the spirit of the constitution is a matter of grave importance.

The Council for Political Stability and National Security held its regular meeting on October 8. The Council discussed both domestic and foreign affairs, including the problem of assimilation at schools. Minister of Information Mashuri explained that the Council had reiterated that the decision of the Minister of Education and Culture remains effective.

On October 9 the Chairman of the KNPI reported to the President on the forthcoming national conference of the KNPI, which will take place from October 28 to November 3.

On October 10 State Minister for Research Prof. Sumitro emphasized that Indonesia had to start to develop non-conventional resources including the development of nuclear power for peaceful purposes.

Meanwhile, commenting on the coming conference of the KNPI five student organisations namely the HMI, PMKRI, GMNI, GMKI, PMII, expressed their conviction that diversity among the younger generation should not become an obstacle in attaining unity and cooperation.

On October 10 Minister of Agriculture Thoyib Hadiwidjaja announced that the rice production target for 1975 was 15.6

million tons compared with 15.03 million tons in 1974. This target could be achieved in the absence of adverse natural conditions.

On October 16, Minister of Finance Ali Wardhana reported to the Council for Economic Stabilization that inflation in September increased by 2.07%.

On October 20, in a press conference at Bina Graha, President Soeharto made refuting clarifications on the controversial issue of his ancestry.

On the day of the Youth Oath (Sumpah Pemuda), a conference of the KNPI was opened in Jakarta. In his opening address President Soeharto stressed that the National Committee of Indonesian Youth belonged to the Indonesian people, and was not a government apparatus. KNPI is therefore to develop a forum to foster a new orientation for the Indonesian youth in giving their answer and participation to the nation's development.

FOREIGN RELATIONS

On October 3 Minister for Education and Culture Prof. Dr. Syarif Thayeb left for Europe to attend the UNESCO conference in Paris.

From October 8 to 12, the Asia Seminar on Science and Technology sponsored by UNESCO was held at Jakarta. In his address, State Minister for Research Prof. Sumitro Djojohadikusumo emphasized that all activities in scientific research are meant to develop human capacities to overcome various obstacles.

On October 14, the new Hungarian Ambassador Dr. Imre Uranovicz presented his credentials to President Soeharto. While receiving the ambassador, President Soeharto stated that broad opportunities existed for Hungary and Indonesia to increase cooperation in the development programs.

On October 11, Foreign Minister Adam Malik and the Belgian Ambassador J.L. Lebacq signed an agreement for the seventh Belgian aid commitment to Indonesia, comprising an amount of 250 million Belgian francs.

Meanwhile from October 21 to November 2, King Baudouin and Queen Fabiola of Belgium payed a state visit to Indonesia. In his welcoming address President Soeharto emphasized that friendship between Indonesia and Belgium was deeply rooted in the first days of Indonesian independence and continued to Indonesia's current development era. King Baudouin stated that Belgium would do her best to convince the EEC to extend wider opportunities to Indonesia.

The ASEAN Permanent Committee held their sessions in Kuala Lumpur from October 22 to 24, while from October 22 to 25, an extra-governmental ASEAN Conference on Regionalism in Southeast Asia was held in Jakarta, sponsored by the Centre for Strategic and International Studies (CSIS), Jakarta and the Indonesian National Secretariate of ASEAN. In his keynote address President Soeharto emphasized that meetings and discussions among ASEAN intellectuals represent positive contribution to the socialisation of ASEAN ideas. The Honorary Chairman of the CSIS, Lieut. Gen. Ali Moertopo, stressed that all ASEAN components were to have active participation in the building up of ASEAN ideas. To foster greater development of ASEAN a new political will is needed. Foreign Minister Adam Malik explained that regional cooperation is one means of overcoming economic problems for the developing nations.

The ASEAN permanent Socio-Cultural Committee held its meeting in Singapore from 29 — 31 October. Problems of narcotics, law, education, population and literature were discussed by the representatives.

From October 23 to 26 ASEAN experts on fertilizer held a seminar in Jakarta. The seminar issued a decision stating that ASEAN will attempt to overcome its dependency on fertilizer imports.

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